

REVENUE ESTIMATES

2001 - 2002

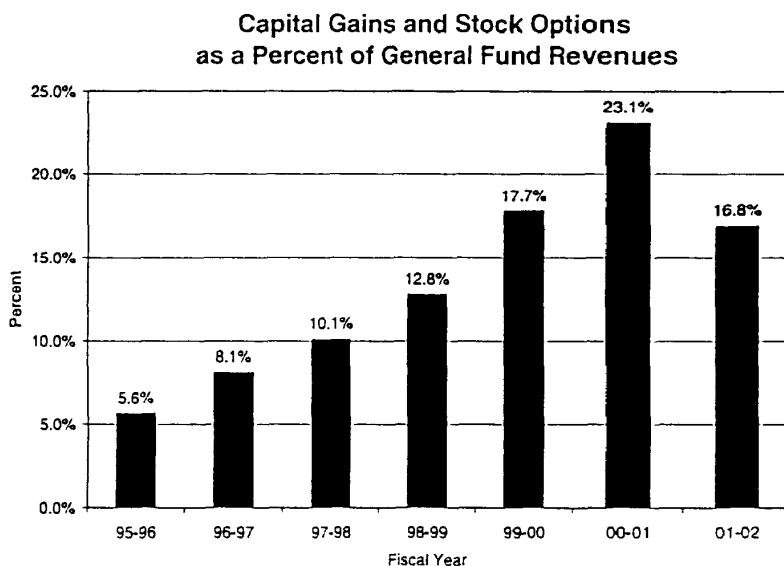
REVENUE ESTIMATES



Revenues are projected to be above the 2001-02 Governor's Budget forecast by \$1.144 billion in 2000-01 and below by \$4.592 billion in 2001-02, for a combined reduction of \$3.448 billion.

Both of these changes are being driven largely by stock market activity, but with some influence from a less robust economic outlook. Recently, the personal income taxes paid on capital gains and stock options represent an increasing portion of the General Fund revenue base. In 2000-01, capital gains realizations and stock options appear to be contributing nearly one-quarter of all General Fund revenue, a dramatic increase from their 5.6 percent share in 1995-96. Although this growth has helped the State to address funding priorities over the last few years, income from stock options and capital gains is clearly at risk when market conditions weaken. The lower stock market assumption has sharply reduced the revenue expected from these sources in the budget year. This volatility underscores the continuing importance of the Administration's emphasis on the appropriate balance of one-time and ongoing spending. (See Figure Rev-1.)

FIGURE REV-1



REVENUE ESTIMATES

REVENUE ESTIMATES**2001 - 2002**

Slowing growth in the economy and a weaker stock market are both reflected in payments that taxpayers are currently making for the 2001 tax year. Receipts for each of the General Fund's major revenue sources already provide evidence of a marked slowing:

- The first personal income tax estimated payment for the 2001 tax year was 11 percent below the prior year.
- Withholding has slowed from double-digit growth to less than 1 percent in March and April combined.
- The first estimated payment for 2001 calendar year corporations was 3.4 percent below the prior year.
- Taxable sales, adjusted for inflation, have slowed from 12.1 percent growth during the first quarter of 2000, to 3.3 percent during the first quarter of 2001.

Given these changes in the outlook, the tax relief proposals in the 2001-02 Governor's Budget have been modified to emphasize long-term investment and small business development. The Administration continues to support increasing the manufacturer's investment credit to 7 percent and extending the sunset, as well as increasing the small business capital gains exclusion from 50 percent to 100 percent, while other tax relief proposals have been withdrawn for this year.

PERSONAL INCOME TAX

The personal income tax forecast has been increased by \$1.455 billion in 2000-01 and reduced by \$2.666 billion in 2001-02.

Stock options, which are reported as wages for tax purposes, are estimated to have risen 68 percent in 2000 from the prior year. This growth in turn contributed substantially to a nearly 18 percent increase in personal income tax withholding. The stock market decline and the downturn in the high technology sector, which relies heavily on options in compensation packages, are expected to substantially reduce option income in 2001 to near the 1999 level. (See the discussion on the economy for more details.) This decline is already suggested in recent, lower withholding payments.

Similarly, capital gains realizations, which are estimated to have increased 28 percent in the 2000 tax year, are expected to decline by about 27 percent in 2001. As noted above, the first estimated tax payment for the 2001 tax year was substantially

REVENUE ESTIMATES

2001 - 2002

below the prior year, a signal that taxpayers are anticipating a lower level of non-wage income of which capital gains is a primary component.

SALES AND USE TAX

The sales and use tax forecast has been reduced by \$430 million in the current year and \$1.456 billion in the budget year.

Through April, sales tax receipts are \$273 million below the 2001-02 Governor's Budget forecast. This may be attributable to consumers' reaction to market declines—the converse of the “wealth effect” that probably played a role in sales tax gains in recent years. The drop-off in stock option income may also be contributing to lower growth, along with the general economic slowing.

Sales tax revenue over the next year is expected to be dampened by very low income growth, reduced vehicle sales, and higher consumer energy costs. Taxable sales are expected to climb only 1.4 percent in 2001, followed by 4.6 percent growth in 2002.

Consistent with the 2001-02 Governor's Budget, this forecast assumes that the budget surplus for 2001-02 will not be sufficient to trigger an automatic extension of the sales tax rate reduction to 4.75 percent that occurred on January 1, 2001.

BANK AND CORPORATION TAX

The bank and corporation tax forecast has been reduced by \$282 million in 2000-01 and \$1.058 billion in 2001-02.

Factors responsible for the revision in the forecast include:

- The weaker economy in 2001, which is expected to result in year-over-year declines in corporate profits.
- Recent data from the Franchise Tax Board that indicate that corporations are increasing their utilization of tax credits and other corporate tax incentives.

Through April, bank and corporation tax revenues are \$134 million below the Governor's Budget forecast.

REVENUE ESTIMATES

REVENUE ESTIMATES

2001 - 2002

FIGURE REV-2

General Fund Revenue Forecast Reconciliation with the Governor's Budget Forecast (Dollars in millions)

	Governor's Budget	May Revision	Change Between Forecasts	
Fiscal 1999-00				
Personal Income Tax	\$39,575	\$39,575	\$0	0.0%
Sales & Use Tax	21,137	21,137	0	0.0%
Bank & Corporation Tax	6,639	6,639	0	0.0%
Insurance Tax	1,300	1,300	0	0.0%
Other Revenues	2,901	2,901	0	0.0%
Transfers	323	323	0	0.0%
Total	\$71,931	\$71,931	\$0	0.0%
Fiscal 2000-01				
Personal Income Tax	\$43,305	\$44,760	\$1,455	3.4%
Sales & Use Tax	21,980	21,550	-430	-2.0%
Bank & Corporation Tax	6,865	6,583	-282	-4.1%
Insurance Tax	1,330	1,470	140	10.5%
Other Revenues	3,406	3,599	193	5.7%
Transfers	13	81	68	523.1%
Total	\$76,899	\$78,043	\$1,144	1.5%
Change from Fiscal 99-00	\$4,968	\$6,112		
% Change from Fiscal 99-00	6.9%	8.5%		
2001-02				
Personal Income Tax	\$44,810	\$42,144	-\$2,666	-5.9%
Sales & Use Tax	23,441	21,985	-1,456	-6.2%
Bank & Corporation Tax	6,931	5,873	-1,058	-15.3%
Insurance Tax	1,353	1,452	99	7.3%
Other Revenues	2,815	2,612	-203	-7.2%
Transfers	94	778	682	823.8%
Total	\$79,434	\$74,842	-\$4,592	-5.8%
Change from Fiscal 00-01	\$2,535	-\$3,201		
% Change from Fiscal 00-01	3.3%	-4.1%		

REVENUE ESTIMATES

GOVERNOR'S BUDGET

12

MAY REVISION

EDUCATION**GOVERNOR'S INITIATIVES****GOVERNOR'S MIDDLE GRADES EXTENDED YEAR INITIATIVE**

In response to requests from the education community, the May Revision amends the Middle Grades Extended Year Initiative to provide greater scheduling flexibility for local districts, a provision for curricular redesign training, and a reduction in the school year extension from 210 to 200 days, with the resulting cost-savings redirected to support low-performing schools. The initial year's appropriation has been reduced by \$35 million. Subsequent budgets will provide \$300 million in 2002-03 and \$650 million in 2003-04 to fully fund three full middle school grades for the additional 20 days of instruction. As an adjunct to the Middle Grades Extended Year Initiative, the Administration has proposed two new block grant programs targeted at the lowest performing schools as discussed below.

HIGH PRIORITY STUDENTS BLOCK GRANT PROGRAM

Consistent with the Governor's goal of improving academic achievement at low-performing schools, the May Revision includes \$220 million, including savings from the Middle Grades Extended Year Initiative, to establish a voluntary grant program to provide schools in the lowest two deciles of the Academic Performance Index (API) with \$175 per pupil for three years. Schools participating in both this program and the Middle Grades Extended Year Incentive Program would receive an additional \$25 per pupil. The grants may be used for instructional materials, staff development, computers, education technology such as software and wiring, library materials, deferred maintenance, enrichment activities, tutoring services, or any other educational purpose aimed at instructional improvement for pupils in these schools. In return, participating schools must fulfill certain requirements geared toward improving pupil achievement. Schools meeting these goals would continue to receive funding for an additional four years. Schools failing to achieve these goals would be required to enroll in the Immediate Intervention/Underperforming Schools Program.

TARGETED INSTRUCTIONAL IMPROVEMENT BLOCK GRANT

To provide school districts with flexibility in meeting the educational goals of those students with the greatest needs, the May Revision includes the Targeted Instructional Improvement Block Grant. The program allows districts that receive funds from the Court-Ordered and Voluntary Desegregation, and the Economic Impact

EXPENDITURES**2001 - 2002**

Aid programs to receive the funds in the future as a block grant. The funds, nearly \$1.2 billion, would be used first to fund the costs of any court-ordered desegregation program still in force, but most importantly will allow greater flexibility to provide instructional improvement for the lowest achieving pupils in the district. This redirection will provide schools with a stable source of funding to target students most in need of assistance in order to improve their academic achievement.

MATHEMATICS AND READING PROFESSIONAL DEVELOPMENT PROGRAM

The May Revision reduces first-year funding for this program from \$335 million to \$160 million, to account for those teachers who have already received training through a University of California-operated Professional Development Institute, or who will attend a Professional Development Institute.

In the first year of this three-year initiative, the Mathematics and Reading Professional Development Program will provide 40,000 K-12 teachers and 4,000 K-12 instructional aides with 40 hours of initial and 80 hours of follow-up training in mathematics or reading. Over three years, the Program will train 217,000 K-12 teachers and 22,000 K-12 instructional aides. An additional 155,000 K-12 teachers will be trained in the Professional Development Institutes in this time.

SCHOOL ENERGY COST ASSISTANCE

The May Revision includes \$540.8 million in Proposition 98 General Fund settle-up funds to assist school districts with energy costs. These funds result from a recalculation of prior-years' Proposition 98 minimum guarantees based upon updated figures for prior-year civilian population. The funds provided pursuant to this program are intended to help school districts pay for higher energy costs. Funds provided through this augmentation are also intended to encourage school districts to improve energy efficiency. As a condition of receipt of funds, school districts will be required to commit to energy conservation measures that will result in a 10 percent reduction in school energy use.

SCHOOL READINESS INITIATIVE

In his January "State of the State" address, the Governor announced the appointment of a task force led by the Secretary of Education, in partnership with the California Children and Families Commission, to explore comprehensive ways to prepare children for the rigors of the classroom. Inspired by research that has shown the importance of the first several years of a child's life on brain development and future ability to learn, the Administration is committed to assisting parents in helping children achieve their full potential. To advance the Administration's commitment to this important effort, \$3 million has been included for the development

EXPENDITURES

2001 - 2002

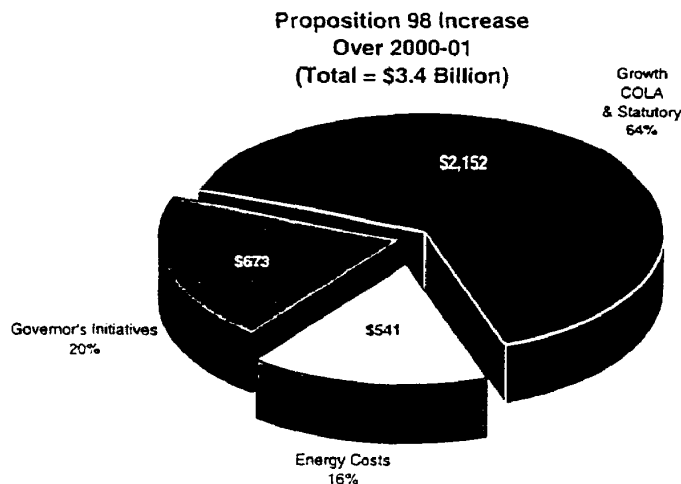
and validation of school readiness assessment instruments for use in determining children's developmental progress prior to entering school so that they are ready to learn.

PROPOSITION 98 GUARANTEE

2000-01	\$ 53.7 MILLION
2001-02	\$285.7 MILLION

In January, given the projected growth in General Fund revenue compared to the change in per-capita personal income (PCPI), the minimum funding level was established by Test 3. However, the Governor chose to fund the Proposition 98 guarantee at the higher Test 2 level, which was \$1.9 billion above the minimum required by the Constitution. In the May Revision, current estimates show an actual decline in year-over-year revenue growth; the minimum Proposition 98 guarantee required by the California Constitution has fallen by \$2.9 billion to less than \$28.0 billion. The proposed May Revision Proposition 98 spending level of \$32.5 billion is \$4.6 billion over the required minimum Test 3 level. In addition, a change in the historical population series due to the federal census results in additional prior year "settle up" funding of \$540.8 million, which brings total General Fund provided to schools and Community Colleges during 2001-02 to \$33.1 billion—\$285.7 million more than proposed in the Governor's Budget. The \$540.8 million in "settle-up" funding includes \$123.2 million for 1995-96, \$229.1 million for 1996-97, and \$188.5 million for 1997-98 (see Figure K-12-1).

FIGURE K-12-1



EXPENDITURES

EXPENDITURES

2001 - 2002

Proposed 2001-02 Proposition 98 spending of \$32.534 billion is \$861.1 million below the calculated Test 2 funding level. Using current economic projections, we estimate that the \$861.1 million "maintenance factor", adjusted for growth in average daily attendance and in per-capita personal income, would be fully repaid in 2002-03.

The General Fund share of the 2000-01 Proposition 98 guarantee has increased by \$53.7 million, due largely to higher current year average daily attendance and lower local revenue estimates.

The May Revision proposes \$7,168 per pupil, including prior year settle-up funding of \$540.8 million. This level of per-pupil funding represents an increase of 7 percent from the \$6,702 in 2000-01, and a 14.4 percent increase above the final 1999-00 figure of \$6,266 per pupil. (See Figure K-12-2)

FIGURE K-12-2

Proposition 98 January vs. May Revision (Dollars in thousands)

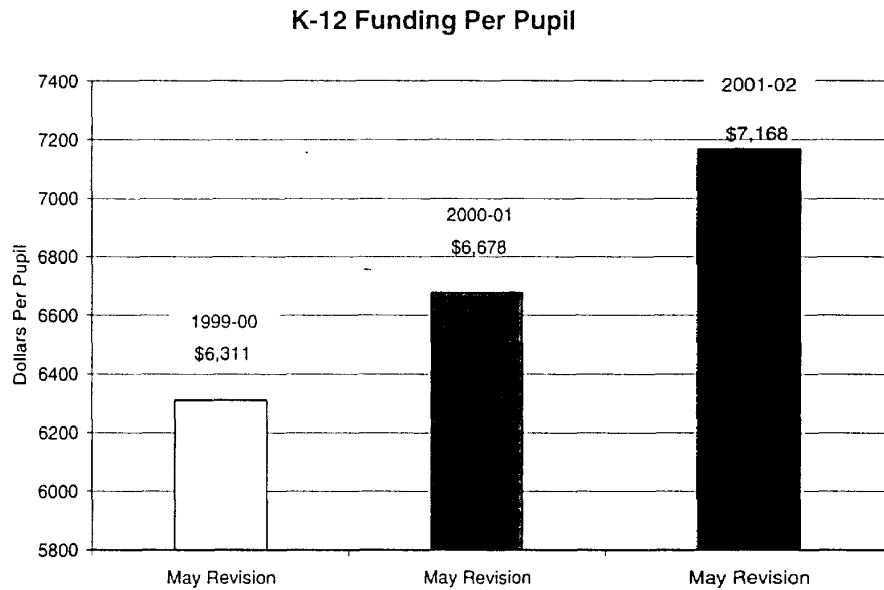
2000-01	January Proposal	May Revision	Change
General Fund	\$30,318,508	\$30,372,197	\$53,689
Local Revenue	12,604,313	12,519,560	-\$84,753
Total Guarantee	\$42,922,821	\$42,891,757	-\$31,064
2001-02	January Proposal	May Revision	Change
General Fund	\$32,789,322	\$32,534,241	-\$255,081
Local Revenue	13,625,715	13,497,994	-\$127,721
Total Guarantee	\$46,415,037	\$46,032,235	-\$382,802
Settleup Funds from Prior Years		\$540,770	\$540,770
Total Proposition 98 Funding		\$46,573,005	\$157,968

EXPENDITURES

EXPENDITURES

2001 - 2002

FIGURE K-12-3



K-12 EDUCATION

2000-01 - \$334.9 MILLION
2001-02 \$676.3 MILLION

The May Revision provides \$341.4 million over two years in additional General Fund resources for K-12 education. Total General Fund allocations of \$33.2 billion for K-12 education now represent 41.6 percent of the total General Fund budget.

CURRENT YEAR

School district and county office of education revenue limit appropriations increase \$51.9 million, as a result of increased estimates of average daily attendance (ADA), a decreased estimate of local property tax revenues, and other miscellaneous adjustments. The May Revision includes estimated K-12 ADA growth of 1.68 percent, up slightly from the 1.46 percent in the Governor's Budget.

EXPENDITURES

EXPENDITURES**2001 - 2002**

Due largely to revised participation levels in current-year programs such as staff development day buy-out, K-4 reading academies, and 9th grade class size reduction, over \$370 million in current year savings is reflected in the May Revision. These savings will be used on a one-time basis to fund programs in the budget year.

BUDGET YEAR

In the budget year, ADA growth is up significantly, from 1.08 percent to 1.40 percent (about 30,000 ADA higher than the January estimate). The total number of ADA is estimated to be 5,700,987 in 2000-01 and 5,780,737 in 2001-02.

GROWTH ADJUSTMENTS

The May Revision provides nearly \$150 million in new funds to provide an increase in the statutory growth rate from 1.06 percent to 1.40 percent. Major adjustments include an increase of \$125.8 million for K-12 apportionments, an increase of \$10.7 million for county office of education apportionments, an increase of \$7.7 million for special education, and an increase of \$6.5 million for categorical programs in the former Mega-item.

COLA ADJUSTMENTS

The May Revision also makes adjustments to the amount provided for K-12 COLA, as the statutory rate has been recomputed and adjusted from 3.91 percent to 3.87 percent. This change results in reductions of \$5.8 million for K-12 apportionments, and \$0.1 million for county office of education apportionments. This change also results in decreases in various K-12 programs, such as special education (\$1.1 million) and categorical programs in the former Mega-item (\$0.7 million).

IMMEDIATE INTERVENTION/UNDERPERFORMING SCHOOLS PROGRAM (II/USP)

The May Revision augments this program by \$49.2 million to fully fund implementation grants for the first and second cohorts at \$200 per pupil. The augmentation includes \$8.6 million to back fill the first cohort up to the \$200 per-pupil level from its \$168 per-pupil level in the current year. The back fill is necessary to maintain parity between schools receiving these grants from federal funds and those receiving grants under the state program. The total proposed funding level for II/USP in 2001-02 is \$162.8 million.

EXPENDITURES

2001 - 2002

STUDENT IDENTIFIERS PILOT PROGRAM

The 2001-02 Governor's Budget included a \$5.0 million placeholder for this proposal. The May Revision instead proposes \$3.0 million, in one-time funding, for the Fiscal Crisis and Management Assistance Team (FCMAT) to implement a Student Identifiers Pilot Project.

The FCMAT will use these funds for operating and management costs related to this project, as well as contracting costs for activities that are necessary to establish student identifiers and a longitudinal database. This pilot project will include districts currently participating in the California School Information Services (CSIS) Program, along with non-CSIS districts, which will be chosen to obtain a sample of districts with different levels of technological and administrative sophistication. The State Board of Education shall approve standards for access to, and security of, the STAR Longitudinal Database.

PROGRAM PARTICIPATION ADJUSTMENT

The May Revision proposes to revise funding requirements for various programs to more accurately reflect expected participation. The changes include: a \$35 million reduction to the Instructional Time and Staff Development Reform Program, a \$10 million reduction to the Algebra Incentive Program, a \$10 million reduction to the 7th and 8th Grade Math Academies, a \$60 million reduction to the Elementary School Intensive Reading Program, a \$30 million reduction to the Program to Reduce Class Size in Two Courses in Grade 9, a \$16.8 million reduction to the English Language Acquisition Program, and a \$10 million reduction to Teacher Peer Assistance and Review Program.

REDUCTIONS

The May Revision includes reductions from the January Budget augmentations for three programs in K-12 education. None of these reductions results in a funding level below the current year. Specific reductions are as follow:

- \$5 million to expand the Academic Volunteer Mentor Program
- \$9.5 million to augment the Deferred Maintenance Program
- \$20 million to expand the After School Learning Program

EXPENDITURES

EXPENDITURES

2001 - 2002

ONE-TIME EXPENDITURES

The May Revision includes new one-time expenditures from the Proposition 98 Reversion Account of more than \$300 million. Significant expenditures from these funds include:

- \$268.1 million for prior-year K-12 reimbursable mandate claims.
- \$15 million for the Nell Soto Parent/Teacher Involvement Program.
- \$3 million for the establishment of a student identifier pilot project.
- \$5 million for the California Information Technology Career Academy Grant Initiative.
- \$4.5 million for allocation to FCMAT for ongoing fiscal oversight of school districts.
- \$4.5 million for FCMAT for costs associated with CSIS.
- \$20 million for the STAR Data Analysis Incentive Program.
- \$15 million for the Principal Training Program.

CHILD CARE POLICY REVIEW

Stage 3 caseload projections indicate the estimated need for \$280.5 million in the budget year, escalating to \$628.9 million in 2004-05, to provide child care services to all families exhausting their two-year transitional benefit after leaving cash assistance. These fiscal estimates do not include the cost of subsidized child care for working poor families.

The Administration is finalizing its review of child care policies and resources in an effort to identify ways to address equity in access as well as the rapidly increasing costs for child care services. A report will be issued shortly outlining potential policy options for designing a system that addresses the needs of working poor families in addition to providing subsidies for former Cal WORKS families who time out of their two-year transitional child care benefit, under limited resources.

CALWORKS STAGE 2 CHILD CARE CASELOAD

The May Revision provides a \$131.5 million increase for Stage 2, primarily from federal sources, to fully fund the estimated Stage 2 caseload increase in the budget year (\$122 million), and to reduce the holdback in the child care reserve from

EXPENDITURES

2001 - 2002

10 percent to 5 percent (\$9 million). Caseload has increased approximately 11,300 children per month since January for a total average monthly caseload of 111,200 in 2001-02. Additional Child Care and Development Fund increases were received after the January Budget was released, providing \$106 million from surplus one-time funds in the current year and ongoing funds which are needed to meet the increased Stage 2 caseload. An additional \$10 million from prior-year unspent CalWORKs child care appropriations is also available to offset the caseload increase, thus requiring an additional Temporary Assistance for Needy Families (TANF) transfer of approximately \$6 million to fully fund needs.

CHILD CARE QUALITY IMPROVEMENT

The May Revision includes an additional \$10 million for quality improvement programs from the additional Child Care and Development Fund increase addressed above. These expenditures will be directed to improve the quality of early childhood development programs for infants and toddlers pursuant to federal earmark requirements.

CALIFORNIA STATE LIBRARY

2000-01	NO CHANGE
2001-02	-\$5.8 MILLION

Due to the slower economic growth, and an expected decline in revenue in the budget year, the May Revision proposes a decrease of \$5.8 million in the State Library's General Fund support. The following program reductions do not result in any program being funded below the current year level.

- \$3.2 million proposed for the Library of California
- \$500,000 proposed for the Families for Literacy Program
- \$2.1 million proposed for the Public Library Foundation

COMMISSION ON TEACHER CREDENTIALING

2000-01	NO CHANGE
2001-02	\$1.2 MILLION

Teacher Credentialing Service Improvement Project—The May Revision provides the Commission on Teacher Credentialing with \$1.2 million for the Teacher Credentialing Service Improvement Project. When fully implemented, this information technology initiative will enable persons to apply for and renew teaching credentials on-line.

EXPENDITURES

EXPENDITURES

2001 - 2002

HIGHER EDUCATION

CALIFORNIA COMMUNITY COLLEGES

2000-01	\$4.6 MILLION
2001-02	\$37.0 MILLION

CURRENT YEAR

Current year General Fund expenditures for the Community Colleges increases by \$4.6 million to reflect revised property tax estimates, which are reduced slightly from the January estimate.

BUDGET YEAR

The May Revision proposes an increase over the Governor's Budget of \$37.0 million (General Fund) for local assistance and \$53,000 (General Fund) for state operations within the community colleges.

Total budget year funding for the Community Colleges is estimated to be \$6.3 billion from all funds in 2001-02, a \$585 million increase over the current year.

Significant increases include:

- \$49.0 million, in onetime funds, from the Proposition 98 Reversion Account, for allocation on an equal amount per-square-foot basis of owned or long-term leased space, to assist colleges in covering a portion of their natural gas and electricity costs for 2000-01 and 2001-02 and to promote conservation efforts consistent with the Governor's goal of reducing peak-load use by state agencies by 20 percent.
- \$13.0 million resulting from changes to local revenue, revised COLA, and other baseline adjustments.
- \$407,000 to allow the Chancellor's Office to acquire needed space within its headquarters building.

These increases are offset in part by the following reductions from the previously proposed augmentations in the Governor's proposed January Budget, due to economic conditions. These programs will remain at or above the level of funding provided in the current year.

EXPENDITURES

2001 - 2002

- \$5.0 million for the Teacher and Reading Development Program.
- \$10.0 million for Scheduled Maintenance.
- \$10.0 million for Instructional Equipment and Library Materials.
- \$460,000 for state operations.

UNIVERSITY OF CALIFORNIA (UC)

2000-01 NO CHANGE
2001-02 -\$16.7 MILLION

The May Revision proposes reducing the University's General Fund augmentation from the \$202.5 million proposed in the 2001-02 Governor's Budget to \$185.8 million. The changes are detailed below.

Augmentations include:

- \$100.6 million to address increases in natural gas costs. This includes \$55.9 million in onetime funds to address current year costs. These funds are also available to promote conservation consistent with the Governor's goal of reducing peak-load energy use by state agencies by 20 percent.
- \$12.8 million to fund a projected enrollment increase of 1,400 full-time equivalent students. This brings total budgeted enrollment growth, including summer enrollment, to 10,522 FTE students.

Reductions from the January Budget are proposed as follows:

- \$89.8 million to reduce the partnership funding from four percent to two percent, and to eliminate the one-percent funding to address budgetary shortfalls in the areas of ongoing building maintenance, instructional equipment, instructional technology, and libraries. With this reduction, UC's augmentation under the partnership agreement will be \$59.8 million.
- \$20 million to eliminate one-time funding for instructional equipment, deferred maintenance, and instructional materials.
- \$5 million to eliminate the one-time augmentation for Engineering and Computer Science Research.

EXPENDITURES

EXPENDITURES

2001 - 2002

- \$5 million to eliminate one-time funding for Environmental Science Research.
- \$5 million to reduce funding for the Professional Development Institutes.
- \$1.5 million to eliminate funds for expansion of Graduate and Professional School Outreach.

The following technical changes are proposed:

Lease Purchase Payments. \$842,000 in savings as a result of additional reimbursements available to offset the costs of lease purchase payments.

Medical Investigation of Neurodevelopmental Disorders (MIND) Institute. \$3 million shift from support to capital outlay to provide funding for projects costs related to a facility for the MIND Institute.

CALIFORNIA STATE UNIVERSITY (CSU)

2000-01	NO CHANGE
2001-02	-\$58.8 MILLION

The May Revision proposes reducing the University's General Fund augmentation of \$216 million proposed in the 2001 Governor's Budget to \$157.2 million. The changes are detailed below.

Augmentations include:

- \$34.1 million to address increases in natural gas costs. This includes \$18.6 million in one-time funds to address current year costs. These funds are also available to promote conservation consistent with the Governor's goal of reducing peak-load energy use by state agencies by 20 percent.

Reductions from the January Budget are proposed, as follows:

- \$70.2 million to reduce the partnership funding from four percent to two percent, and to eliminate the one-percent funding to address budgetary shortfalls in the areas of ongoing building maintenance, instructional equipment, instructional technology, and libraries. With this reduction, CSU's augmentation under the partnership agreement will be \$46.7 million.

EXPENDITURES

2001 - 2002

- \$20 million to eliminate one-time funding for instructional equipment, deferred maintenance, and instructional materials.
- \$1 million to eliminate an augmentation to CSU's Program for Education and Research in Biotechnology (CSUPERB).
- \$1 million to eliminate an augmentation to the Diagnostic Writing Service.

The following technical change is proposed:

Lease Purchase Payments. \$685,000 in savings as a result of additional reimbursements available to offset the costs of lease purchase payments.

HASTINGS COLLEGE OF THE LAW (HCL)

2000-01	NO CHANGE
2001-02	-\$0.4 MILLION

The May Revision proposes reducing HCL's General Fund augmentation from \$1.2 million proposed in the 2001-02 Governor's Budget to \$0.8 million, as follows:

- \$430,000 to reduce the partnership funding from four percent to two percent, and to eliminate the one-percent funding to address budgetary shortfalls in the areas of ongoing building maintenance, instructional equipment, instructional technology, and libraries. With this reduction, HCL's augmentation under the partnership agreement will be \$778,000.

STUDENT AID COMMISSION (SAC)

2000-01	-\$35 MILLION
2001-02	-\$35 MILLION

The May Revision proposes sufficient resources to fully fund awards for all eligible participants under the recently enacted Cal Grant Entitlement and Cal Grant Competitive Programs. The latest estimates from the SAC indicates that the number of eligible applicants for Cal Grant Entitlement awards will be less than the projection in the January Governor's Budget. In addition, a number of factors have resulted in savings in the current year, such as more students than projected choosing lower cost public institutions. Consequently, the May Revision reflects a reduction of \$35 million from the amount included in the Governor's Budget in both the current year and the budget year.

EXPENDITURES

EXPENDITURES

2001 - 2002

HEALTH AND HUMAN SERVICES

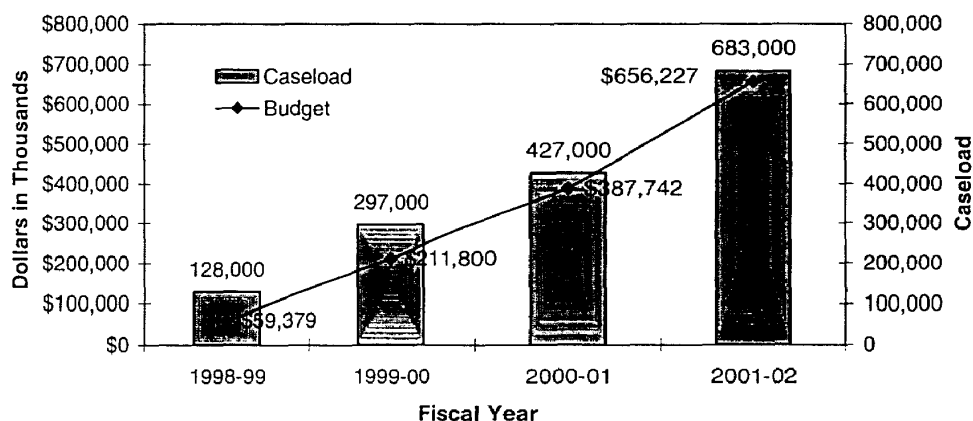
GOVERNOR'S INITIATIVES

HEALTHY FAMILIES PROGRAM ADULT EXPANSION

Providing health care coverage to uninsured families remains a high priority for this Administration. Currently, more than 407,000 children are enrolled in the Healthy Families Program (HFP), with a total of 427,000 expected to be enrolled by the end of June 2001. On October 1, 2001, California will be one of the first states in the nation to begin enrolling parents of children in either the HFP or Medi-Cal for Children (MCC) Program. Parents with incomes up to 200 percent of the Federal Poverty Level are eligible. It is expected that more than 158,000 previously uninsured adult Californians will be provided affordable health care by the end of June 2002 as a result of this expansion.

FIGURE HHS-1

Healthy Families Program Enrollment



The May Revision continues funding provided in the Governor's Budget to simplify and facilitate the application and enrollment of families into the HFP/MCC programs, as follows:

EXPENDITURES

2001 - 2002

- \$6 million to expand outreach through schools. School-based outreach has proven to be a very effective way to inform eligible families about state-sponsored programs. This enhanced outreach reflects the Administration's commitment to enrolling the maximum number of uninsured children.
- \$9.9 million for an HFP/MCC media campaign.
- \$7.8 million to be used for training and hiring of application assistants and for advertising to traditionally underserved communities.
- \$800,000 in the current year and \$1.3 million in the budget year to fund the statewide implementation of the Health-E-App project. The Health-E-App is an Internet-based application that will greatly simplify the HFP/MCC application process by, among other things, allowing applicants to obtain an immediate "real-time" preliminary eligibility determination. The Health-E-App will also facilitate the HFP/MCC application process by allowing counties to obtain application information through the Internet.

TOBACCO SETTLEMENT FUNDS AND OVERALL HEALTH CARE EXPENDITURES

TARGETING TOBACCO SETTLEMENT FUNDS FOR HEALTH CARE EXPANSION

The 1998 Master Tobacco Settlement requires tobacco companies to make payments to the states totaling an estimated \$206 billion nationally through 2025. California is projected to receive an estimated \$25 billion over 25 years. In 2001-02, the State expects to receive approximately \$475 million, an increase of \$7 million over the amount estimated in the Governor's Budget. Local governments will receive an equal amount.

The Administration continues to propose trailer bill legislation to establish the Tobacco Settlement Fund into which will flow 100 percent of the State's share of the tobacco settlement revenues. These funds will be used solely for health care programs, including expanding health coverage to the uninsured, cancer research and treatment, and anti-tobacco efforts. Figure HHS-2 reflects these programs and associated funding included in the May Revision.

The May Revision reflects the following changes in the Tobacco Settlement Funding proposed in the Governor's Budget:

EXPENDITURES

EXPENDITURES

2001 - 2002

EXPENDITURES

- **Healthy Families Program**—The Governor's Budget included \$150.5 million to expand the Healthy Families Program (HFP) to uninsured parents of children in the Healthy Families or Medi-Cal for Children Programs, and for expanded coverage to children with family incomes between 200 and 250 percent of the Federal Poverty Level (FPL). The May Revision projects Tobacco Settlement Fund expenditures to decline on a one-time basis by \$44 million below the level anticipated in the Governor's Budget. This net decrease is due to a deferral of the Healthy Families Parent Expansion until October 1, 2001, as a result of a delay in obtaining waiver approval from the federal Health Care Financing Administration (HCFA). This program is expected to serve a total of 525,000 children and 158,000 adults by June 30, 2002.
- **Child Health and Disability Prevention Program**—The May Revision includes a reduction of \$1.5 million from \$64.8 million to \$63.3 million, due to a reduction in caseload.

The May Revision continues to fund the following programs from the Tobacco Settlement Fund at the level proposed in the Governor's Budget:

- **Medi-Cal Program**—\$47 million to establish an income deduction to provide no-cost Medi-Cal benefits to aged, blind, and disabled persons with incomes below 133 percent of the FPL. Further, the May Revision includes \$123 million from the Tobacco Settlement Fund to expand Medi-Cal eligibility to poor or low-income families with incomes at or below 100 percent of the FPL.
- **Breast Cancer Treatment**—\$20 million to provide breast cancer treatment to uninsured or underinsured individuals whose income is below 200 percent of the FPL.
- **Prostate Cancer Treatment**—\$20 million to double the prostate cancer treatment program for uninsured or underinsured individuals whose income is below 200 percent of the FPL.
- **Youth Anti-Tobacco**—\$20 million (\$5 million one-time) to provide grants to local nonprofit organizations to reduce smoking among teens and college-aged youth.

The Administration will work with the Legislature to allocate a portion of the Tobacco Settlement Fund reserve on a one-time basis in the budget year for tobacco cessation, in anticipation that in future years, these funds will be used to support increasing caseload resulting from the Healthy Families and Medical Program expansions.

EXPENDITURES

2001 - 2002

FIGURE HHS-2

**Tobacco Settlement Fund
Revenues and Expenditures - 2001-02 Estimated
(Dollars in Millions)**

<u>Revenues:</u>	<u>Amount</u>
Revenues	<u>\$ 475</u>
Total Revenues	\$475
<u>Expenditures:</u>	
Healthy Families Expansion:	
Children's Program	46
Adults Program	60
Medi-Cal Eligibility and Benefit Expansions:	
Benefits to Aged, Blind, and Disabled	
With Incomes Below 133 percent of FPL	47
Section 1931 (b) of Title XIX of the Social Security Act	123
Breast Cancer Treatment Program	20
Prostate Cancer Treatment Program	20
Youth Anti-Tobacco Program Expansion	20
Child Health and Disability Prevention Program	<u>63</u>
Total Expenditures	\$399
Reserve	<u>\$76</u>

HEALTH INSURANCE PORTABILITY AND ACCOUNTABILITY ACT (HIPAA)

In August 1996, the federal Health Insurance Portability and Accountability Act (HIPAA) was enacted. The purpose of the HIPAA is to improve the portability and continuity of health insurance coverage, provide administrative simplification, revise security procedures, and combat waste in health care service delivery. The HIPAA requires specific national standards for coding and tracking medical information, administrative simplification, and security and privacy of individual patient medical records. The management of activities related to HIPAA will be complex as it affects many different areas within state agencies and programs. To ensure the successful implementation of the HIPAA regulations, the Governor has established the Office of HIPAA Implementation (OHI), within the Health and Human Services Agency, to assume statewide leadership in this important endeavor.

Statewide HIPAA Funding

The May Revision provides approximately \$152.1 million (\$37 million General Fund) in a statewide budget item to fund HIPAA implementation activities in 2001-02. This does not represent an increase in the General Fund budgeted for the HIPAA or set-aside in the Governor's Budget.

EXPENDITURES

EXPENDITURES

2001 - 2002

Estimated expenditures for individual departments affected by the HIPAA include the following:

California Health and Human Services Agency—\$4.6 million (\$4.0 million General Fund) for 15.0 positions and contract funding to establish a statewide project management office (Office of HIPAA Implementation) to provide leadership, coordination, policy formulation, direction, and oversight responsibilities for HIPAA implementation.

Department of Health Services—\$78.6 million (\$16.7 million General Fund) for 15.1 positions and contract funding to develop policies associated with the various HIPAA standards and to modify Medi-Cal and non-Medi-Cal information systems to comply with HIPAA.

Department of Mental Health—\$2.4 million (\$1.2 million General Fund) for 9.0 positions and consulting contracts to implement regulations and modify computer systems to meet the requirements of HIPAA.

Department of Developmental Services—\$2.5 million (\$1.25 million General Fund) for consulting contracts to implement computer system modifications to comply with HIPAA requirements.

Department of Alcohol and Drug Programs—\$6 million (\$3 million General Fund) for 5 positions and consulting contracts to implement system modifications to meet the HIPAA requirements.

Figure HHS-3 reflects the anticipated 2001-02 HIPAA expenditures by department.

EXPENDITURES

EXPENDITURES

2001 - 2002

FIGURE HHS-3

**2001-02 Budget
Health Insurance Portability and Accountability Act
(Dollars in Thousands)**

Department	General Fund	Other Fund	Positions
California Health and Human Services Agency	\$4,043	\$578	15.0
Department of Health Services	\$16,751	\$61,871	15.1
Department of Mental Health	\$1,211	\$1,211	9.0
Department of Developmental Services	\$1,257	\$1,257	—
Department of Alcohol and Drug Programs	\$3,021	\$3,021	5.0
Office of Statewide Health Planning and Development	—	\$99	1.0
Total General and Other Funds	\$ 23,262	\$64,917	45.1
Total Funds	\$94,320		

DEPARTMENT OF HEALTH SERVICES

MEDI-CAL

2000-01 **-\$266.4 MILLION**
2001-02 **\$367.7 MILLION**

CURRENT YEAR

The May Revision includes total Medi-Cal expenditures of \$24.3 billion (\$9.2 billion General Fund), a decrease of \$219.1 million below the Governor's Budget. General Fund expenditures for Medi-Cal have decreased by \$266.4 million, or 2.9 percent.

The number of persons projected to be eligible for Medi-Cal in 2000-01 is expected to increase by 74,300 to 5,284,500 eligibles. This represents an increase of about 1.4 percent above the level projected in the Governor's Budget. The revised caseload is 3.4 percent above the 1999-00 caseload.

The net General Fund decrease includes the following significant adjustments:

- \$175 million in decreased expenditures due to the delay of the payment for the Orthopaedic Hospital settlement until early 2001-02.

EXPENDITURES

EXPENDITURES

2001 - 2002

- \$54.1 million in estimated savings resulting from smaller than anticipated increases in the cost of nursing facility care.
- \$24.8 million in estimated savings in county administration costs because caseload activity reported by the counties decreased from the prior base period.
- \$25 million in estimated savings due to drug costs not increasing as rapidly as projected.
- \$2.2 million in estimated savings due to a variety of other increases and decreases affecting the Medi-Cal program.

BUDGET YEAR

The May Revision includes total Medi-Cal expenditures of \$26.5 billion (\$9.7 billion General Fund), an increase of \$1.4 billion (\$367.7 million General Fund) above the Governor's Budget.

The average monthly Medi-Cal caseload is expected to increase by 233,400 eligible beneficiaries to 6,084,200 eligibles. This represents an increase of four percent above the Governor's Budget. This increase is due primarily to a more rapid phase-in of eligibility expansions than originally estimated.

The net General Fund increase includes the following significant adjustments:

- \$255.1 million for the Orthopaedic Hospital settlement to pay hospitals a portion of the lump sum settlement payment and increase outpatient rates by 30 percent. This amount includes a \$175 million payment moved from 2000-01 to 2001-02 and \$80.1 million for the increased rates, \$15.9 million more than was estimated in the Governor's Budget.
- \$43.5 million for increased county administration costs.
- \$46.1 million in increased costs for a long-term care rate increase, including a 2.15 percent increase for nursing homes.
- \$16.7 million for increased fiscal intermediary costs mainly due to implementation of the Health Insurance Portability and Accountability Act.
- \$25 million in increased costs for a managed care rate increase of 2 percent.
- \$3.3 million in decreased expenditures as a result of adding new dental services for pregnant women, which results in savings due to reduced neonatal intensive care and fewer low birth weight deliveries.

EXPENDITURES

2001 - 2002

- \$0.4 million to enhance efforts to screen children for lead poisoning.
- \$4.6 million in estimated net savings due to a variety of other increases and decreases affecting the Medi-Cal program.

PUBLIC HEALTH

2000-01 *-\$5.6 MILLION*
2001-02 *-\$27.2 MILLION*

The May Revision maintains funding for Administration priorities, including:

- Anti-Tobacco Media Campaign—\$114.5 million (Proposition 99)
- Emergency Room Doctors/Trauma Services—\$24.8 million (Proposition 99)
- Breast Cancer Treatment Program—\$20 million (Tobacco Settlement Fund)
- Prostate Cancer Treatment Program—\$20 million (Tobacco Settlement Fund)
- Youth Anti-Tobacco—\$20 million (Tobacco Settlement Fund)

CASELOAD PROGRAMS

The May Revision includes a decrease of \$6.1 million, or 5.9 percent, below the \$103.4 million provided in the Governor's Budget for the current year, due to a decrease of caseload and health care costs in the California Children's Services, Child Health and Disability Prevention, and Genetically Handicapped Persons programs.

The May Revision includes a decrease of \$3.9 million, or 3.4 percent, below the \$114.3 million provided in the Governor's Budget for the budget year, due to further declines in caseload and health care costs in these programs.

TOBACCO TAX STAMP

The May Revision proposes trailer bill language to limit, to the pre-Proposition 99 level, the discount given to tobacco wholesalers and distributors for affixing tax stamps to tobacco products. This action will reduce the discount given to tobacco wholesalers from approximately \$11 million per year to \$1.3 million per year.

This change will increase available revenues for health and human services programs, as follows:

EXPENDITURES

EXPENDITURES

2001 - 2002

- Cigarette and Tobacco Products Surtax Fund (Proposition 99) by \$2.8 million
- Breast Cancer Prevention and Research Fund by \$220,000
- California Children and Families Trust Fund (Proposition 10) by \$5.6 million
- General Fund by \$1.1 million

**CIGARETTE AND TOBACCO PRODUCTS
SURTAX FUND (CTPSF)—PROPOSITION 99**

2000-01 -\$77,000 (CTPSF)
2001-02 -\$14.7 MILLION (CTPSF)

Proposition 99 revenues for the current year and budget year are projected to further decrease by \$9 million and \$13 million, respectively. In addition, the Access for Infants and Mothers (AIM) Program caseload is increasing, resulting in cost increases of \$1.3 million in the current year and \$3.6 million in the budget year.

In the budget year, the May Revision allocates the Proposition 99 resource shortfall on a pro rata basis across all programs, except for direct allocations to clinics and Health Education Account programs. Budget year program reductions total \$18.3 million. This amount, less the AIM increase of \$3.6 million, results in a net reduction of \$14.7 million. Program reductions in the budget year are as follows:

- Comprehensive Perinatal Outreach (\$273,500)
- Children's Hospitals (\$85,700)
- California Healthcare for Indigents (\$12.7 million)
- Managed Care County Allocation (\$202,700)
- County Medical Services Program (\$863,900)
- Rural Health Services (\$451,800)
- University of California Research (\$587,000)
- Breast Cancer Early Detection (\$3.1 million)

While the Proposition 99 revenues to county programs continue to decline, expansions in the Medi-Cal and the Healthy Families programs will continue to shift responsibility for health care coverage from county to federal- and state-funded

EXPENDITURES

2001 - 2002

programs. The May Revision also continues \$53.7 million for breast cancer treatment, research, and screening. In addition, counties will directly receive \$475 million in Tobacco Settlement Funds and \$50 million in increased county health Realignment funding that can be used to supplement State funding.

DEPARTMENT OF HEALTH SERVICES— GENERAL FUND REDUCTIONS

Anticipated revenue reductions, when combined with expenditure adjustments required for enrollment, caseload, and population changes in education, health programs, etc., necessitate the reduction or elimination of some augmentations proposed in the Governor's Budget, as well as the reduction of some base program funding proposals. The following General Fund reductions are proposed:

- **Family Planning Programs**—A reduction of \$10 million is proposed to the media allocations for teen pregnancy prevention and family planning programs. The May Revision continues \$50 million for various family planning programs.
- **County Medical Services Program Administration**—A reduction of \$5 million and a corresponding increase of \$5 million in reimbursements from counties in order to recoup the cost of administrative support provided to the County Medical Services Program by the Department of Health Services.
- **Richmond Lab Complex**—A reduction of \$4 million due to a delay in the project rollout schedule of the new Richmond Public Health Laboratory. The delay reduces the need for funding to occupy, support, operate, and provide equipment for the lab until fiscal year 2002-03.
- **Grants to Local Public Health Departments**—The elimination of a \$2 million augmentation originally proposed in the Governor's Budget, for local public health subvention used for a variety of purposes by local public health departments throughout the State.
- **Windows 2000/Exchange 2000 SQL Upgrade**—A reduction of \$391,000, originally proposed in the Governor's Budget, for an upgrade of the Windows 2000/Exchange 2000 SQL servers used by the Department.

EXPENDITURES

EXPENDITURES

2001 - 2002

MANAGED RISK MEDICAL INSURANCE BOARD

2000-01 -\$6.6 MILLION GENERAL FUND
2001-02 \$9.8 MILLION GENERAL FUND

HEALTHY FAMILIES PROGRAM

CURRENT YEAR

The May Revision includes an overall expenditure decrease of \$12.3 million (\$6.4 million General Fund). This expenditure decrease is due primarily to slower growth in anticipated caseload. The Healthy Families Program (HFP) is expected to serve a total of 427,000 children by June 30, 2001, 28,000 less than what was anticipated in the Governor's Budget. The current year expenditure decrease for pre enrollment programmatic activities is attributable to a delay in federal waiver approval of the Healthy Families Program Parent Expansion.

BUDGET YEAR

The May Revision projects General Fund expenditures to increase by \$10 million, while net expenditures are expected to decrease by \$76.9 million (\$44 million Tobacco Settlement Fund) below the level anticipated in the Governor's Budget. The General Fund expenditure increase is due to a higher than anticipated enrollment of children between 100 percent and 200 percent of the Federal Poverty Level. The net expenditure decrease is due to the postponement of the Healthy Families Parent Expansion until October 1, 2001, as a result of a delay in obtaining waiver approval from HCFA. The program is expected to serve a total of 525,000 children and 158,000 adults by June 30, 2002.

ACCESS FOR INFANTS AND MOTHERS PROGRAM

CURRENT YEAR

Caseload is estimated to increase by 0.9 percent. An average of 471 women per month are expected to enroll in the Access for Infants and Mothers (AIM) Program, compared to 467 as originally estimated in the Governor's Budget. Although General Fund expenditures will be lower by \$209,000, overall program expenditures are expected to increase by \$938,000. This expenditure increase is due to both the increased caseload and an underestimate of program costs.

EXPENDITURES

2001 - 2002

BUDGET YEAR

Caseload is expected to decrease by 0.6 percent. An average of 524 women per month are estimated to enroll in the program, down from 527 women reflected in the Governor's Budget. General Fund expenditures are expected to be lower by \$239,000, with overall expenditures expected to increase by \$588,000. This expenditure increase is due both to an overestimate of balances in the AIM's Perinatal Insurance Fund and an underestimate of program costs.

DEPARTMENT OF DEVELOPMENTAL SERVICES

2000-01	-\$0.7 MILLION
2001-02	\$33.6 MILLION

DEVELOPMENTAL CENTERS

CURRENT YEAR

The May Revision includes a decrease of \$9.7 million General Fund and a commensurate increase in federal funds resulting from the sooner-than-anticipated certification and restored funding eligibility of the Sonoma Developmental Center and updated Medi-Cal eligibility standards.

BUDGET YEAR

The May Revision projects no change in the Developmental Center population, cost, or staffing reflected in the Governor's Budget.

REGIONAL CENTERS

CURRENT YEAR

The May Revision includes an increase of \$8.8 million General Fund and a commensurate decrease in federal funds resulting from:

- Lost federal reimbursements resulting from delays in recertifying Regional Center federal Medicaid Home and Community-Based Services Waiver programs (\$5.6 million).
- Lower than expected increases in Targeted Case Management billing data and base rates for related Regional Center administrative costs (\$3.2 million).

EXPENDITURES

EXPENDITURES

2001 - 2002

BUDGET YEAR

The Regional Center population is projected to increase by approximately 1,100 clients above the 171,400 projected in the Governor's Budget. Costs in 2001-02 are projected to increase by \$33.4 million (\$32.9 million General Fund) due to increased caseload and additional costs incurred as more severely disabled clients move into the community from the developmental centers.

DEPARTMENT OF DEVELOPMENTAL SERVICES—
GENERAL FUND REDUCTIONS

Anticipated revenue reductions, when combined with expenditure adjustments required for enrollment, caseload, and population changes in education, health programs, etc., necessitate the reduction or elimination of some augmentations proposed in the Governor's Budget. The following General Fund reduction is proposed for the Department of Developmental Services:

- **Early Start Program**—A reduction of \$2.6 million, originally provided in the Governor's Budget, for Regional Center clinical and support staffing ratio increases in the Early Start Program. The May Revision continues \$48.4 million (\$3.6 million General Fund) for this program, including \$8.6 million for clinical evaluation and assessment.

DEPARTMENT OF REHABILITATION

2000-01	-\$1.1 MILLION
2001-02	\$0.7 MILLION

CURRENT YEAR

The May Revision reflects a net General Fund savings of \$1.1 million. This results from a decrease in Vocational Rehabilitation Program (VRP) caseload of 3,509 clients, for a General Fund savings of \$1.8 million. The Work Activity Program and Supported Employment Program caseload increases by approximately 98 clients, resulting in a \$0.6 million General Fund cost.

BUDGET YEAR

The May Revision reflects a net General Fund increase of \$686,000 in the department's budget. In part, this results from a decrease of \$734,000 General Fund in the Habilitation Program. Also, costs in the VRP are projected to increase by \$1.6 million General Fund, related to a new Level of Significance of Disability assessment tool, which will increase the number of in-plan clients by a net of 228, and the costs of expected service delivery.

EXPENDITURES

2001 - 2002

- The May Revision includes \$3.2 million Federal Trust Fund to continue and expand existing Assistive Technology (AT) services for 18,600 clients at the 29 Independent Living Centers. Such services include public education, outreach, information and referral, case management, limited training in use of AT, coordinating the loan guarantee/buy-down program, development of funding sources, and a recycling program for AT devices.

DEPARTMENT OF MENTAL HEALTH

2000-01 -\$2.4 MILLION
2001-02 -\$16.6 MILLION

STATE HOSPITALS

CURRENT YEAR

The State Hospital population is expected to remain unchanged from the Governor's Budget projection of 4,593 patients.

BUDGET YEAR

The State Hospital population is projected to decrease by 6 patients below the Governor's Budget, for a revised estimate of 4,587 patients, with a minor cost savings of \$320,000 General Fund. However, total State Hospital funding is increased by a net of \$6 million (\$5 million General Fund), primarily as a result of the following:

- An increase of \$2.4 million General Fund due to the higher costs of new psychotherapeutic drugs in State Hospitals.
- An increase of \$2.6 million (\$2.1 million General Fund) for new recruitment and retention bonuses for State Hospital classifications that have been experiencing high long-term vacancy rates.

COMMUNITY SERVICES

CURRENT YEAR

The May Revision includes a one-time savings of \$6 million General Fund as the result of technical delays in awarding Mobile Crisis Assistance contracts in 2000-01. The May Revision continues to fund these contracts in 2001-02.

EXPENDITURES

EXPENDITURES**2001 - 2002**

In addition, \$5.5 million (reimbursements) for Early and Periodic Screening, Diagnosis and Treatment (EPSDT) services is added to reflect an increase in the number of children receiving mental health services under this program.

BUDGET YEAR

Funding for Community Services programs increases by a net \$26 million (a reduction of \$5.3 million General Fund), primarily comprised of the following:

- An increase of \$1.4 million General Fund to provide a supplemental payment for Community Treatment Facilities.
- Federal block grant allocation increases of \$9.5 million.
- An increase of \$15.4 million in federal reimbursements as a result of updated caseload estimates for the San Mateo Pharmacy and Laboratory Services Field Test and the Early and Periodic Screening, Diagnosis, and Treatment program (including Therapeutic Behavioral Services).

**DEPARTMENT OF MENTAL HEALTH—
GENERAL FUND REDUCTIONS**

Anticipated revenue reductions, when combined with expenditure adjustments required for enrollment, caseload, and population changes in education, health programs, etc., necessitate the reduction or elimination of some augmentations proposed in the Governor's Budget, as well as the reduction of some base program funding proposals. The following General Fund reductions are proposed:

- \$12.4 million for deferred maintenance projects at State Hospitals. The Budget continues \$7.6 million General Fund for projects to improve accessibility for handicapped persons at Metropolitan State Hospital.
- \$5 million for the mental health managed care program to withdraw the discretionary 3 percent cost-of-living adjustment.
- \$5 million for the supportive housing program. The Budget continues \$20.1 million for supportive housing programs and \$55.6 million for Integrated Services for Homeless Adults.

EXPENDITURES

2001 - 2002

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS

2000-01 -\$10.0 MILLION
2001-02 -\$34.7 MILLION

CURRENT YEAR

In 2000-01, the Governor's Budget for the Department of Alcohol and Drug Programs (DADP) experiences a net reduction of \$10.0 million General Fund, reflecting the following:

- The State Medicaid Plan amendments that would have allowed new Drug Medi-Cal services beginning January 2001 have not yet been approved. Thus, this expansion of services will not begin in the current year. Therefore, savings of \$21.5 million (\$10.4 million General Fund) will result. These services include day care habilitative, case management, and relapse prevention.
- Perinatal Drug Medi-Cal increases \$875,000 (\$449,000 General Fund) due primarily to longer courses of treatment in day care habilitative and updated program costs.

BUDGET YEAR

In 2001-02, the Governor's Budget for DADP proposes a net reduction of \$34.7 million General Fund, reflecting the following:

- As a result of updated caseload and new unit cost of services, Drug Medi-Cal is projected to increase by \$22.4 million (\$10.9 million General Fund) and Perinatal Drug Medi-Cal by \$2.2 million (\$1.1 million General Fund). The Drug Medi-Cal population is projected to increase by approximately 20,700 and the Perinatal Drug Medi-Cal population 850 above the estimates contained in the Governor's Budget.
- Departmental administrative activities related to implementation of Proposition 36 (the Substance Abuse and Crime Prevention Act of 2000) are estimated to be \$2,977,000 and 27.2 positions. This is an increase of \$194,000 (Substance Abuse Treatment Trust Fund), and 2 positions above the Governor's Budget.

EXPENDITURES

EXPENDITURES

2001 - 2002

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS— GENERAL FUND REDUCTIONS

Anticipated revenue reductions, when combined with expenditure adjustments required for enrollment, caseload, and population changes in education, health programs, etc., necessitate the reduction or elimination of some augmentations proposed in the Governor's Budget, as well as the reduction of some base program funding proposals.

As a result, the following General Fund reductions are proposed:

- \$7.7 million provided in the Governor's Budget for expansion of adult treatment services. The Budget maintains funding of approximately \$540 million (all funding sources) for adult substance abuse treatment services.
- \$5.7 million for expansion of youth treatment services. The Budget maintains approximately \$35 million (all funding sources) for youth substance abuse treatment services, and provides \$121.3 million for local juvenile crime prevention programs.
- \$50 million (\$24.3 million General Fund) to reflect the delay in federal approval of the State Plan amendment to authorize federal funding for the discretionary expansion of Drug Medi-Cal day care rehabilitative, case management, and aftercare services.
- \$8.5 million for Drug Court substance abuse treatment. The May Revision retains \$9.5 million General Fund for treatment and court administrative costs.
- \$176,000 for new Drug Medi-Cal oversight positions. The Budget retains 10 positions for this purpose. In addition, DADP can call upon assistance from the Department of Health Services which added 192 positions in 2000-01 for Medi-Cal fraud investigation.

EXPENDITURES

2001 - 2002

DEPARTMENT OF SOCIAL SERVICES

2000-01 -\$51.8 MILLION
2001-02 -\$137.5 MILLION

CALWORKS

The 2000-01 average monthly CalWORKs caseload of 528,000 represents no change from 1999-00. For 2001-02, the caseload is expected to be 512,000, or 18,000 above the Governor's Budget projection, a 3.0 percent decrease from the 2000-01 projection.

The May Revision continues to meet, but not exceed, the federally required combined state and county Temporary Assistance for Needy Families (TANF) maintenance-of-effort (MOE) for 2000-01. Total CalWORKs-related expenditures are estimated to be \$6.6 billion including the transfer to the Department of Education for child care and county expenditures. In addition, the May Revision continues to reflect \$153.9 million General Fund savings due to the State's successful appeal of its 1997 work participation rate. For 2001-02, the MOE will be met at the \$2.7 billion level, and total CalWORKs related expenditures are anticipated to be \$6.9 billion.

Major General Fund and TANF Block Grant changes proposed for 2000-01 include:

- \$78.7 million decrease in assistance payments due to lower than projected caseload.
- \$100.4 million decrease for CalWORKs employment services largely due to a proposed statutory change eliminating the \$97 million appropriated in the current year for county performance incentives earned prior to July 1, 2000. The May Revision also continues to reflect elimination of \$153.9 million appropriated in the current year for performance incentives, which is not needed to pay prior year earnings.

Major changes proposed for 2001-02 include:

- \$69.8 million increase in assistance payments to CalWORKs recipients due to increased caseload as compared to the January projection and new federal regulations affecting the vehicle resource limit rules for CalWORKs eligibility. This amount also includes an increase in the cost-of-living adjustment provided on assistance payments, which rises from 4.85 percent to 5.31 percent.

EXPENDITURES

EXPENDITURES

2001 - 2002

- \$25.7 million decrease for basic CalWORKs employment services and county administration to reflect county funding requests being held to the level approved in the current year.
- Counties have earned \$1.2 billion in incentives to date, but had spent only \$62 million as of December 30, 2000. As a result, May Revision proposes trailer bill language requiring counties to prioritize performance incentives for base CalWORKs program costs and providing for the development of a new employment services budgeting methodology.
- \$35.6 million reduction in the TANF Block Grant reserve for contingencies. The remaining \$49.3 million reserve will be available for unanticipated needs in any program for which TANF funds are appropriated, including CalWORKs benefits, employment services, county administration, and child care costs.

CALWORKS—GENERAL FUND REDUCTIONS

Anticipated revenue reductions, when combined with expenditure adjustments required for enrollment, caseload, and population changes in education, health programs, etc., necessitate the reduction or elimination of some augmentations proposed in the Governor's Budget, as well as the reduction of some base program funding proposals. The following General fund reductions are proposed:

- \$59.1 million reduction in the Welfare-to-Work (WtW) Grant General Fund match to spread it over three years, consistent with the extension of the time period for which the federal WtW Grant funds are available for expenditure. This reduction was mainly offset by a \$44.3 million increase in federal TANF funds for CalWORKs employment services, since 75 percent of the match is used as a fund source for employment services.
- \$46.7 million General Fund decrease resulting from an increase in the transfer from the Employment Training Fund to the Department of Social Services (DSS) to fund CalWORKs employment services.
- \$25 million General Fund decrease to reflect reimbursements from the California Children and Families Commission's Child Care Account included in the DSS budget for CalWORKs Stage One Child Care.

CALWORKS CHILD CARE

The May Revision reflects an increase of \$10.7 million to fund 95 percent of the estimated need for CalWORKs Stage One Child Care administered by DSS in 2001-02. The increase primarily is due to increased county administrative costs. In addition, the May Revision reflects an increase of \$121.6 million to fund 95 percent of the estimated need for CalWORKs Stage Two Child Care administered by the Department of Education. This increase is due to revised child care caseload

EXPENDITURES

2001 - 2002

data. The Child Care Reserve, which includes the remaining 5 percent of the child care estimates in addition to a \$90 million true reserve, is increased by \$53 million to assure that sufficient funds are available if unanticipated needs arise after enactment of the budget.

SUPPLEMENTAL SECURITY INCOME/ STATE SUPPLEMENTARY PAYMENT PROGRAM

Total General Fund expenditures for Supplemental Security Income/State Supplementary Payment (SSI/SSP) are \$2.6 billion in 2000-01 and \$2.8 billion in 2001-02, which represents decreases from the January estimate of \$50.9 million in the current year and \$45.3 million in the budget year. Caseload for the SSI/SSP Program is projected at 1,082,400 in 2000-01, and 1,105,500 recipients in 2001-02.

For 2001-02, the May Revision includes a reduction of \$13.3 million General Fund, reflecting increased federal funding available for the 5.31 percent cost-of-living adjustment for SSI/SSP recipients, based on the California Necessities Index.

IN-HOME SUPPORTIVE SERVICES

General Fund expenditures for the In-Home Supportive Services (IHSS) program are below the level reflected in the Governor's Budget by \$21.6 million in the current year and above the Governor's Budget by \$71.5 million in the budget year. Caseload is projected to be 248,700 recipients in 2000-01 and 266,400 in 2001-02.

The May Revision includes an additional \$57.0 million General Fund for the IHSS Program to further specific goals in the Administration's Aging with Dignity Initiative, to improve the quality of provider services, and strengthen the recruitment and retention of providers. The Administration has included funding to increase salaries and wages for IHSS providers, as follows:

- \$23.7 million to provide a discretionary \$1 per hour increase in the State share-of-cost of employee wages, to \$8.50 per hour for Public Authority (PA) providers. This increase is provided even though, under current law, an increase in the State participation rate for Public Authorities would not have been triggered since State General Fund revenues are not anticipated to grow by 5 percent. The May Revision includes trailer bill language to suspend this trigger for 2001-02 only.
- \$6.4 million to provide a 2.31 percent increase in the State share-of-costs, in addition to the 3 percent already included, for non-PA individual provider salaries. This increase, combined with the January 1, 2002, state minimum wage

EXPENDITURES

EXPENDITURES

2001 - 2002

increase, makes state funding available for a \$6.58 per hour wage in July, increasing to \$7.11 per hour in January 2002. The May Revision includes trailer bill language to authorize this increase.

- \$1.3 million for a 5.31 percent increase in the current Maximum Allowable Contract Rates for that mode of service.
- \$25.6 million to fund the State share of benefits up to \$0.60, for various PA providers.

SPECIAL PROGRAMS— GENERAL FUND REDUCTIONS

Anticipated revenue reductions, when combined with expenditure adjustments required for enrollment, caseload, and population changes in education, health programs, etc., necessitate the reduction or elimination of some augmentations proposed in the Governor's Budget, as well as the reduction of some base program funding proposals. The following General Fund reductions are proposed:

- \$13.3 million for a partial reduction of the discretionary services augmentation in the Adult Protective Services (APS) Program. The revised Budget retains \$56.2 million for the APS Program.
- \$5.9 million discretionary County Services Block Grant funding for information and referral, adult out-of-home care, non-medical out-of-home care, staff development, and other discretionary services that was included in the Governor's Budget. The May Revision retains \$11.3 million contained in the County Services Block Grant for APS.

CHILD WELFARE SERVICES

General Fund expenditures in the budget year will decline by \$22.2 million. For the reasons noted above in the Special Programs section, the May Revision also includes the following General Fund reductions:

- \$4.3 million to eliminate various discretionary cost-of-living adjustments for Child Welfare Services (CWS).
- \$9.7 million to eliminate the Juvenile Crime Prevention Program, a delinquency prevention demonstration program operating at various pilot sites throughout the State. The May Revision continues \$121.3 million for a comprehensive, multi-agency response to juvenile crime which provides preventive and rehabilitative services to at-risk youth and juvenile offenders. The budget also contains \$25.9 million for Juvenile Crime Enforcement and Accountability Challenge

EXPENDITURES

2001 - 2002

Grants and the Repeat Offender Prevention Project. The budget continues to provide \$201.4 million of Federal TANF funds for the Comprehensive Youth Services Act, which provides preventive services to at-risk youth, as well as services to youthful offenders under the jurisdiction of the courts.

- \$166,000 for three permanent positions for the CWS/CMS Expanded Adoptions Subsystem.
- \$139,000 for two positions proposed for Child Abuse Prevention, Intervention and Treatment Program Oversight.

FOSTER CARE

The May Revision includes a reduction in General Fund costs of \$1.3 million in the current year and \$7.4 million in the budget year resulting from a decrease in the foster care caseload. Savings from the caseload decrease were offset by a reduction in the projected savings from the Kinship Guardianship Assistance Payment program, from \$4.6 million to \$719,000 in the current year and from \$7.1 million to \$5.6 million in the budget year. The revised Budget maintains \$25.5 million General Fund for the 4.85 percent cost-of-living adjustment proposed in January.

ADOPTIONS PROGRAM

The May Revision includes an increase of \$3.4 million General Fund in the budget year above the level reflected in the Governor's Budget, reflecting total expenditures of \$89.4 million (\$46.7 million General Fund).

DEPARTMENT OF CHILD SUPPORT SERVICES

2000-01	-\$9.0 MILLION
2001-02	-\$16.7 MILLION

CURRENT YEAR

The May Revision includes a decrease of \$9 million General Fund compared to the Governor's Budget. These savings primarily result from a \$16.6 million increase in federal incentive funding, which decreases the General Fund share of costs for incentives by \$4.4 million, and a \$2.5 million decrease in the amount owed for the Alternative Federal Penalty imposed on California for not completing a statewide automated child support system. Additionally, costs for electronic data processing conversion and enhancements decreased, resulting in a \$1.4 million General Fund savings.

EXPENDITURES

EXPENDITURES

2001 - 2002

BUDGET YEAR

The May Revision includes a net decrease of \$16.7 million General Fund based in part on a reduction of \$11.3 million in the estimate for the Alternative Federal Penalty, and a \$6.2 million reduction in incentives paid to counties, due to a lower projected growth in the amount of child support collections. Child Support collections are now projected to be \$2.3 billion (total funds), a reduction of \$69.3 million from the Governor's Budget. The reduction reflects a change in the projected growth rate from 12 to 11 percent due to seasonal variations in the estimate, and results in a reduction in projected General Fund revenue of \$36.9 million.

DEPARTMENT OF AGING

2000-01	NO CHANGE
2001-02	-\$2 MILLION

The May Revision includes \$19.5 million Federal Trust Fund to implement the new National Family Caregiver Support Program. The program would provide support for families and other unpaid, informal providers of in-home and community care to older individuals, including individual counseling, organization of support groups, respite care, and supplemental services, on a limited basis, to complement informal care.

Anticipated revenue reductions, when combined with expenditure adjustments required for enrollment, caseload, and population changes in education, health programs, etc., necessitate the reduction or elimination of some augmentations proposed in the Governor's Budget, as well as the reduction of some base program funding proposals. The following General Fund reductions are proposed:

- \$1.5 million for the Linkages Program. The May Revision retains \$8.7 million in the Linkages base program.
- Elimination of the discretionary augmentation of \$982,000 (\$484,000 General Fund) for the Adult Day Health Care program. The revised Budget retains \$3 million within the department for this program, in addition to Medi-Cal reimbursement of \$151.2 million for 2.3 million Medi-Cal days of service.

EXPENDITURES

2001 - 2002

PUBLIC SAFETY

DEPARTMENT OF JUSTICE

2000-01	NO CHANGE
2001-02	\$4.4 MILLION

BUDGET AUGMENTATIONS

The May Revision includes the following augmentations for the Department of Justice:

High Technology Antitrust—\$3.7 million General Fund transfer to the Attorney General Antitrust Account to support the investigation and litigation of antitrust law violations in the high technology industry. This proposal also includes trailer bill language to increase the statutory cap on funds in the Antitrust Account from \$3.0 million to \$6.0 million.

Energy Task Force Investigation and Litigation—\$5.4 million General Fund to expand the Energy Task Force investigation proposed in the Governor's Budget. This augmentation will provide additional resources for the Attorney General to investigate and prosecute cases of alleged market manipulation by energy suppliers, and to litigate pending legal actions involving energy suppliers and marketers.

Capitol Truck Crash Cost Recovery—\$870,000 General Fund for the department to contract with specialized insurance coverage counsel and other consultants in efforts to recover the costs associated with repairing damages to the State Capitol resulting from the January truck crash.

Richmond DNA Laboratory Lease—\$2.1 million General Fund for lease and tenant improvement funding to acquire additional DNA laboratory space in Richmond. This new facility will accommodate a number of DNA staff proposed in the Governor's Budget, and other staff currently housed in the overcrowded Berkeley DNA laboratory.

Public Rights Division Energy-Related Workload—\$380,000 in Reimbursements to provide legal services to the Department of Water Resources and the California Energy Commission for increased legal activity relating to energy deregulation and the current energy emergency.

EXPENDITURES

EXPENDITURES

2001 - 2002

BUDGET REDUCTIONS

Due to the lower level of General Fund resources available for 2001-02, the May Revision proposes a reduction of \$7.7 million General Fund for the Department of Justice, including:

Post-Conviction DNA Testing—A savings of \$499,000 from the Governor's Budget proposal of \$1,842,000, corresponding to newer estimates of potential workload resulting from the passage of SB 1342.

Criminal History Workload—A reduction of \$3.0 million for data storage equipment from the Governor's Budget proposal of \$9.1 million. This reduction leaves \$6.1 million in the department's budget for this workload, including \$3.0 million for similar equipment.

Division of Law Enforcement Vehicle Replacement—Deletion of \$1.7 million proposed for annual vehicle replacement in the Division of Law Enforcement. This leaves \$813,000 in the department's base budget for this purpose.

Bureau of Forensic Services Equipment Replacement—Deletion of \$1.3 million proposed for annual forensics equipment replacement.

Cal-Photo—Deletion of the \$1.2 million proposed to expand the Cal-Photo pilot program to 10 additional law enforcement agencies throughout the State.

DEPARTMENT OF CORRECTIONS

2000-01	-\$3.8 MILLION
2001-02	-\$50.3 MILLION

INMATE/PAROLEE POPULATION/CASELOAD CHANGES

CURRENT YEAR

Based upon the Department of Corrections' (CDC) spring estimates, the May Revision reflects an estimated June 30, 2001, population of 161,071 inmates. This is 1,753 fewer inmates than projected in the 2001-02 Governor's Budget, and results in savings of approximately \$7.9 million. The revised population estimate represents a decrease of 929 inmates (0.6 percent) below the June 30, 2000, population level.

The projected June 30, 2001, parolee population is 121,848. This is a decrease of 1,330 parolees from the number projected in the Governor's Budget. The revised

EXPENDITURES

2001 - 2002

population estimate and related program changes result in a net decrease of \$4.5 million, which includes savings due to a delay in activation of Community Correctional Re-entry Center beds. The revised population estimate represents an increase of 2,550 parolees (2.1 percent) over the June 30, 2000, level.

The net effect of the changes listed above is a General Fund savings of approximately \$12.4 million.

BUDGET YEAR

The CDC's spring estimates reflect a June 30, 2002, population of 155,706 inmates, 8,727 inmates fewer than projected in the Governor's Budget. This decrease and related program changes result in savings of approximately \$79.9 million. The estimated impact of the passage of Proposition 36 has been reflected in this estimate. The revised inmate population estimate reflects a decrease of 5,364 inmates (3.3 percent) below the revised June 30, 2001, population estimate.

The spring population estimate for parolees as of June 30, 2002, is 126,390, which is 138 fewer parolees than projected in the 2001-02 Governor's Budget. This decrease and related program changes result in a net decrease of approximately \$1.1 million. This decrease is reflective of an anticipated increase in parolee population because of Proposition 36 and savings due to a delay in activation of Community Correctional Re-entry Center beds. The parolee population level projected for the budget year is an increase of 4,542 parolees (3.7 percent) over the revised population estimate for June 30, 2001.

The net effect of the changes listed above is a General Fund savings of approximately \$81 million.

BUDGET AUGMENTATIONS

The May Revision proposes the following augmentations for the Department of Corrections:

Financial Process Redesign—\$1.4 million General Fund to initiate a redesign of the Department's financial management practices, including expanded training and an examination of information technology solutions.

Plata v. Davis Lawsuit—\$5.3 million General Fund for legal and health care expertise related to a lawsuit over inmate medical care. Additionally, \$6.8 million General Fund is proposed for the Department of Justice for the initial motion and certification phase of the lawsuit.

EXPENDITURES

EXPENDITURES

2001 - 2002

Administrative Segregation—\$12 million General Fund to standardize staffing levels in existing Administrative Segregation Units at all State prisons and those Administrative Segregation Overflow units that fill entire General Population Housing Units or tiers.

Retrofit of Backup Generators—\$4 million General Fund to provide operating costs related to a retrofit of back-up electrical generators.

DNA Data Base and Post-Conviction Testing—\$1.8 million General Fund to perform case records searches and DNA and palm print collection for specified inmates.

Cesar Chavez Holiday Coverage—\$6.9 million General Fund in 2000-01 and 2001-02 included to provide holiday pay and relief coverage for the Cesar Chavez Holiday.

Correctional Officer Cadet Pay—\$1.7 million General Fund in 2000-01 and \$5.8 million General Fund in 2001-02 to fund pay increases for correctional officer cadets to improve cadet recruitment and retention.

BUDGET REDUCTIONS

Due to the lower level of General Fund resources available for 2001-02, May Revision proposes a reduction of \$6.5 million General Fund for the Department of Corrections, including:

- **Headquarters Consolidation**—A reduction of \$1.5 million General Fund included in the 2001-02 Governor's Budget that would have provided for site acquisition, preliminary design, and environmental impact reporting related to the consolidation of departmental headquarters.
- **Legal Settlements**—A reduction of \$5 million General Fund included the Department's base funding for legal settlements.

EXPENDITURES

2001 - 2002

BOARD OF PRISON TERMS

2000-01	-\$0.1 MILLION
2001-02	\$3.6 MILLION

HEARING WORKLOAD ADJUSTMENT

A reduction of \$47,000 General Fund in 2000-01 and an increase of \$1.7 million General Fund in 2001-02 to fund population related workload, including Proposition 36 related hearings.

PROPOSITION 36 IMPLEMENTATION

\$1.9 million General Fund for the Proposition 36—associated coordination with other agencies, review of treatment programs, and collection of outcome and expenditure data.

DEPARTMENT OF THE YOUTH AUTHORITY

2000-01	\$.6 MILLION
2001-02	\$7 MILLION

POPULATION ADJUSTMENTS

CURRENT YEAR

For 2000-01, the May Revision estimate for the year-end institution population is 6,985, a decrease of 155 from the projection included in the Governor's Budget. This population decline, offset by a significant decline in the level of county reimbursements, will result in a General Fund increase of \$931,000. In addition, the Youth Authority projects a year-end parole population of 4,305, a decrease of 230 from the projection included in the Governor's Budget, which results in a General Fund savings of \$304,000.

BUDGET YEAR

For 2001-02, the year-end institution population is projected to be 6,740, which is 235 fewer than anticipated in the Governor's Budget. The combined effect of declining population and a significant decrease in the level of county reimbursements will result in a General Fund increase of \$173,000. The Youth Authority projects a year-end parole population of 4,286, a decrease of 229 from the level assumed in the Governor's Budget, resulting in a savings of \$661,000.

EXPENDITURES

EXPENDITURES

2001 - 2002

The May Revision proposes the following augmentations for the Youth Authority:

Youth Authority Information System—\$495,000 General Fund for a consultant contract to conduct a business process analysis for completion of a feasibility study report related to the Youth Offender Information System.

Youth Authority Infrastructure—\$1,136,000 General Fund to migrate the Department's information technology infrastructure to the industry-wide standard operating system.

Lease Revenue Payment—A decrease of \$400,000 General Fund to reflect a reduction in base rental payments due to an updated debt service payment schedule for a lease revenue funded project.

OFFICE OF CRIMINAL JUSTICE PLANNING

2000-01	NO CHANGE
2001-02	-\$5.0 MILLION

REGIONAL LAW ENFORCEMENT TRAINING CENTERS

The May Revision proposes \$5 million General Fund for capital grants to Regional Law Enforcement Training Centers to be awarded on a competitive basis to three local law enforcement agencies.

War on Methamphetamine—Due to the lower level of General Fund resources available for 2001-02, the May Revision proposes a reduction of \$10 million in one-time General Fund for the War on Methamphetamine project. With this reduction, the Budget retains \$30 million General Fund (\$15 million one-time, \$15 million ongoing) to provide additional resources to purchase specialized equipment for the enhancement of suppression activities and to hire more personnel to combat methamphetamine offenses.

EXPENDITURES

2001 - 2002

CALEPA

DEPARTMENT OF TOXIC SUBSTANCES CONTROL

STRINGFELLOW/CASMALIA HAZARDOUS WASTE SITES SETTLEMENT

2000-01	NO CHANGE
2001-02	\$114.5 MILLION

The State has significant liability for cleanup at these two hazardous waste sites, by some estimates as much as \$183 million. The State has reached a settlement with the federal government to buy out the liability for \$114.5 million.

WATER RESOURCES CONTROL BOARD

HEXAVALENT CHROMIUM

2000-01	NO CHANGE
2001-02	\$462,000

The May Revision proposes additional funds to collect data on water systems throughout the state and initiate cleanup at the most contaminated water wells.

CLEAN BEACHES INITIATIVE

2000-01	NO CHANGE
2001-02	-\$90 MILLION

Slower economic growth will significantly reduce revenues in the budget year. This revenue reduction, when combined with required expenditure adjustments, necessitates the reduction or elimination of various program proposals included in the January Governor's Budget. Accordingly, the Administration is proposing the following reduction:

- The Clean Beaches Initiative is proposed to be reduced from \$100 million to \$10 million.

EXPENDITURES

EXPENDITURES

2001 - 2002

DEPARTMENT OF TOXIC SUBSTANCES CONTROL**BROWNFIELDS INSURANCE PROGRAM**

2000-01	No CHANGE
2001-02	-\$37.5 MILLION

Slower economic growth will significantly reduce revenues in the budget year. This revenue reduction, when combined with required expenditure adjustments, necessitates the reduction or elimination of various program proposals included in the January Governor's Budget. Accordingly, the Administration is proposing the following reduction:

- The \$37.5 million to start the Brownfields Insurance Program is proposed to be eliminated.

EXPENDITURES

2001 - 2002

RESOURCES

RESOURCES AGENCY

2000-01	NO CHANGE
2001-02	\$35 MILLION

RIVER PARKWAY PROGRAM

Slower economic growth will significantly reduce revenues in the budget year. This reduction, when combined with necessary expenditure adjustments, necessitates reducing the River Parkway Program from \$70 million to \$35 million. The remaining funds will be allocated for these high priority projects:

Los Angeles River – North: \$5 million for the Cornfields property at Chinatown in the City of Los Angeles. These funds will be supplemented with \$35 million from Proposition 12 (Parks Bond) to provide for acquisition and preliminary development.

Los Angeles River – South: \$6 million for the acquisition of Wrigley Heights in the City of Long Beach.

San Joaquin River Parkway: \$4 million for the Spano Ranch acquisition in the counties of Fresno and Madera.

Tuolumne River Parkway: \$8 million for various acquisition and development projects in Stanislaus County.

Guadalupe River: \$1 million for trail development in the City of San Jose.

Sacramento River: \$1 million for Fenwood Ranch in Shasta County.

Resources Opportunity Funds: \$10 million to be used as matching funds for other high priority river parkway projects throughout the state.

EXPENDITURES

EXPENDITURES**2001 - 2002****DEPARTMENT OF WATER RESOURCES****DROUGHT PANEL RECOMMENDATIONS**

2000-01	NO CHANGE
2001-02	\$10.5 MILLION

The Governor's Advisory Drought Planning Panel released its report in December 2000 with recommendations for reducing the short-term impact of water shortages. The May Revision includes funding for the following recommendations:

- \$1 million for an Environmental Impact Report for a critical water shortage purchasing program.
- \$1.5 million to provide technical assistance to rural homeowners and small water systems on private wells.
- \$6 million to provide technical and financial assistance to help local agencies collect data and develop groundwater management plans.
- \$2 million to provide technical and financial assistance to help local agencies develop integrated water resource management plans.

This proposal will also provide funding to address emergency drought conditions in the Klamath Basin.

WATER AND ENERGY EFFICIENCY PROGRAM

2000-01	NO CHANGE
2001-02	\$ 5 MILLION

The May Revision proposes to provide technical assistance and fund a number of projects to encourage efficient water and energy use in both agricultural and urban sectors. DWR estimates that these activities will result in savings of approximately 630,000 acre feet of water and 38 megawatts of electricity.

EXPENDITURES

2001 - 2002

DEPARTMENT OF FORESTRY AND FIRE PROTECTION

CALIFORNIA OAK MORTALITY RECOVERY PROGRAM

2000-01	NO CHANGE
2001-02	\$1.9 MILLION

Sudden Oak Death (SOD) was first observed in 1995 as oak trees began dying in Marin County. SOD has spread to Monterey, Napa, Santa Cruz, San Mateo, and Sonoma counties. In 2000-01, the Department of Forestry and Fire Protection, in coordination with the U.S. Forest Services, began research on how to eradicate the newly discovered fungus. A California Oak Mortality Task Force also was formed to address SOD issues. The May Revision includes \$1.9 million for additional studies and for hazardous tree removal.

ELECTRICAL GENERATION PLANT INSPECTIONS

2000-01	NO CHANGE
2001-02	\$5.5 MILLION

The May Revision includes a set-aside of \$5.5 million for development and enforcement of generation plant performance standards, including maintenance schedules and maintenance programs. These standards will ensure that facilities are not operated in a way that results in adverse consequences affecting the availability of power on the grid, potentially driving up power prices. These funds will be made available upon clarification of the oversight and enforcement functions of a State power authority, the Public Utilities Commission, the Independent System Operator, and the Electricity Oversight Board.

EXPENDITURES

EXPENDITURES

2001 - 2002

BUSINESS,
TRANSPORTATION,
AND HOUSING

DEPARTMENT OF TRANSPORTATION

2000-01	NO CHANGE
2001-02	-\$1.2 BILLION

Refinancing the Transportation Funding Plan—\$1.3 billion in General Fund savings in 2001-02 and \$1.2 billion in 2002-03 by deferring the sales tax transfer for two years—Because more money is coming into the transportation plan's fund than will be needed for project expenditures in the next few years, the Administration proposes to defer the sales tax shift for two years and keep the plan whole by adding two additional years of shift of sales tax on gasoline at the end of the plan (2006-07 and 2007-08). No transportation projects should be delayed by this shift. This two-year deferral frees up \$1.062 billion in 2001-02 and \$1.177 billion in 2002-03. Other adjustments are proposed that result in net General Fund relief of \$1.3 billion in 2001-02 and \$1.2 billion in 2002-03.

When the transportation funding plan was enacted last year, the strong condition of the General Fund allowed a substantial initial deposit of \$2 billion toward a six-year, \$6.9 billion plan, which included \$5.3 billion of designated high-priority congestion relief projects. Beginning with 2001-02, the next five years of the plan were to be funded from a diversion of the sales tax on gasoline from the General Fund. The May Revision estimates that revenues available to this plan are slightly lower than the estimates in the Governor's Budget (\$8.1 billion versus \$8.2 billion), but still substantially above the \$6.9 billion expected last summer.

The key features of this proposal are as follows:

- **Protects cash needed to continue all currently programmed projects—** Provides sufficient cash to meet all expected demands from currently programmed projects in the State Transportation Improvement Program (STIP), the State Highway Operations and Protection Program, and the Traffic Congestion Relief Program (TCRP) based on Caltrans' latest estimates.
- **Holds the local street and road maintenance allocation from the Transportation Investment Fund (TIF) harmless—**The May Revision proposes that uncommitted funds in the State Highway Account (SHA) be used to maintain

EXPENDITURES

2001 - 2002

allocations for local street and road maintenance for the two-year deferral period. Because cities and counties will be held harmless during the two-year deferral, they will not participate in the extension of the program to 2006-07 and 2007-08. Instead, the allocation to the STIP from the TIF will be increased.

- **Holds funding for State Transit Assistance at a level consistent with ongoing funding from its usual funding sources and the TIF**—Uncommitted funds from the Public Transportation Account (PTA) will be used to maintain the State Transit Assistance Program at a level of \$171 million in 2001-02 and increasing amounts in following years.
- **Applies additional uncommitted funds to meet cash flow in future years**—In order to leave sufficient funds available to meet projected cash flows in 2004-05 and 2005-06, the revised plan uses \$280 million from the PTA for eligible congestion relief projects. These funds are available due to increased revenues resulting from increases in fuel prices and previously unprogrammed balances. Additionally, \$180 million will be advanced from the SHA to pay eligible congestion project costs. The revised plan also includes authority to borrow \$100 million from the Motor Vehicle Account and standby authority to borrow from the General Fund if needed, to meet cash flow requirements in 2004-05 and subsequent years.
- **Defers TIF contributions to STIP and PTA for two years, but those programs recoup in future years**—Due to expected growth in the sales tax on gasoline in the two additional years of the revised plan, all funds derived from the SHA will be restored, with an increase of an estimated \$473 million. All the PTA funds will also be restored by 2007-08 with an increase of \$119 million. Additionally, the PTA will receive about \$228 million in increased revenues through 2007-08 from other sources, so the impact of the early years of the revised plan is mitigated.

Overall, the value of the plan—\$8.6 billion—will be increased by over \$500 million as compared to existing law.

Project Delivery Workload—Caltrans requests a net augmentation of \$106.8 million to its support budget to deliver scheduled workload during the budget year. The increase will provide capital outlay support resources for project delivery including the revised 2000 State Transportation Improvement Program, the State Highway Operation and Protection Plan, Bay Bridge seismic retrofit and replacement, and the Traffic Congestion Relief Program. Increasing contracted services will accommodate the workload.

Installation of Battery Back-ups and Energy Efficient Lighting Devices at Intersections—As a public safety measure, the Administration proposes

EXPENDITURES

EXPENDITURES

2001 - 2002

\$21.4 million to continue a project begun in the current year to ensure operation of traffic signals during power outages. The project will retrofit a portion of the State's traffic light and ramp meters with energy-efficient, light-emitting diodes. These resources will also fund battery back-up purchases and installations. The replacement project pays for itself within five years with energy and maintenance savings.

Increase Federal Funding for Farmworker Transportation—The May Revision includes \$500,000 in additional federal grant funds to purchase and operate vans and small buses as part of the Farmworker Transportation Services Pilot Program in the San Joaquin Valley.

Increase Funding for Transportation Planning and Research—The May Revision proposes \$13.3 million for various planning and research projects through a combination of reappropriated funds (\$6.9 million), new federal TEA-21 funds (\$5.1 million), and increased state resources (\$1.3 million). Projects include activities such as a new Community Based Planning Grant program to integrate transportation planning with other planning issues, as well as materials and technology research and development studies and pilot installations.

Additional Leased Space—The Administration proposes \$7.6 million to continue addressing safety concerns at the Department's District 7 Los Angeles headquarters. The occupancy and electrical load at the facility will be reduced based on a capacity study to be completed in early June 2001.

DEPARTMENT OF MOTOR VEHICLES

2000-01	NO CHANGE
2001-02	\$2.3 MILLION

E-Government License Plates Initiative—The Administration proposes \$592,000 from the Motor Vehicle Account to develop software that allows the public to use the Internet to order and pay for personalized license plates. This project continues the Administration's policy of providing faster, more efficient services through e-Government.

E-Government Customer Services—The May Revision includes \$2.7 million to develop a Department of Motor Vehicles (DMV) Spanish website, purchase advance speech processing software to improve telephone service to the public, and test an automated e-mail response system. These projects will expand electronic transactions, improving customer convenience.

Queuing System Expansion—The Administration requests \$2.5 million for queue management systems in 66 DMV field offices and 8 regional offices. Queuing

EXPENDITURES

2001 - 2002

systems allow DMV to manage workflow, significantly reducing average wait times and improving waiting conditions for customers. The systems also will result in additional data collection on customer patterns and will allow for more efficient allocation of staff within individual field offices.

Vehicle License Fee Rebate (VLF)—Reduced Administrative Costs—Chapter 5, Statutes of 2001 (SB 22) converted the VLF rebate program from a two-year to a six-month program (with reductions in the fee after June 30, 2001, applied directly to customers' VLF bills), significantly reducing costs to administer the program. The May Revision decreases DMV's budget by \$3.4 million and 68.3 personnel years to reflect this reduction in workload.

Reducing the Excess Balance of the Smog Impact Fee Refund Account—Chapter 32, Statutes of 2000, transferred \$665.3 million from the General Fund into a special deposit fund to refund smog impact fees. The May Revision transfers \$96.4 million (reflected as revenues) from that special fund back to the General Fund based on updated estimates of resources needed for smog impact fee refunds, leaving a reserve in the special fund for unforeseen costs.

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

2000-01	NO CHANGE
2001-02	-\$348.3 MILLION

The May Revision retains nearly all of the approximately \$250 million in remaining balances of funding provided in the \$535 million housing initiative in the 2000-01 Budget. Eighteen million dollars not expected to be spent until 2002-03, is proposed for reduction. The 2001-02 revised budget proposes a total of \$314 million in spending on housing programs. Funding retained in May Revision includes \$91 million for multifamily housing construction, \$24 million for homebuyer assistance, \$16.5 million for childcare facilities, \$14 million for emergency shelters, \$38.5 million for farmworker housing, and \$100 million for incentives to local government agencies to permit more housing in ways that impact community infrastructure less and provide more affordable housing.

General Fund Reductions: Due to the change in the fiscal outlook for 2001-02, the Administration proposes the following reductions:

- **Jobs/Housing Balance Improvement Program—**Eliminate the \$200 million augmentation for incentive grants to localities increasing their level of housing permits. The \$100 million approved in the current year remains fully funded for use to provide grants that will be made beginning in January 2002 for 2001 permitting activity.

EXPENDITURES

EXPENDITURES

2001 - 2002

- **School Facilities Fee Assistance Program**—Eliminate the future appropriations for the program (\$40 million in 2001-02 and \$20 million in 2002-03) and transfer the uncommitted balance of existing funds (approximately \$86 million) to the General Fund. Demand has been low, and the program was scheduled to sunset in December 2002.
- **California Homebuyers Downpayment Assistance Program**—Transfer \$18 million of the original \$50 million available for the program to the General Fund. This reduction leaves sufficient funds for the program to operate through 2001-02.
- **Predevelopment Loan Program**—Eliminate the proposed \$4 million augmentation for the consolidated program. The program will continue to operate using loan repayments and funds carried over from 2000-01.
- **Statewide Housing Plan**—Eliminate the proposed \$200,000 augmentation for consultants to assist with the first post-census plan update.
- **Employee Housing Program**—Eliminate the proposed \$50,000 augmentation for consultants to complete engineering and plan checks transferred from localities.

DEPARTMENT OF CORPORATIONS

2000-01	NO CHANGE
2001-02	\$1.8 MILLION

The Administration proposes \$1.8 million for a pilot project, the California Electronic Access to Securities Information Project (Cal-EASI), to allow electronic filing and processing of selected securities filings. The project will allow the Department of Corporations to accept some documents over the Internet, focusing on the Investment Program's twenty most significant filings. The pilot project will also permit imaging of hard-copy submissions and improve workflow capabilities.

DEPARTMENT OF MANAGED HEALTH CARE

2000-01	NO CHANGE
2001-02	\$500,000

Quality of Care Report Card. The May Revision includes \$500,000 for continuing implementation of the report card on health care service plans.

EXPENDITURES

2001 - 2002

TECHNOLOGY, TRADE AND COMMERCE

TECHNOLOGY, TRADE, AND COMMERCE AGENCY

2000-01 *NO CHANGE*
2001-02 *-\$6.9 MILLION*

BUDGET AUGMENTATIONS

- **Small Business Development Centers**—The May Revision includes \$1.1 million in additional federal funds to assist small businesses improve their use of technology for operating efficiencies.
- **Consolidated Space Industry Program**—The Administration proposes to set-aside \$1 million for legislation to create a new consolidated State space industry program administered by the Technology, Trade, and Commerce Agency.
- **Reduction in Excess Vacant Positions**—In accordance with the actions taken in the Governor's Budget for other agencies, the May Revision reduces \$575,000 by eliminating 11.5 excess vacant positions and adjusting the Agency's budgeted salary savings.

BUDGET REDUCTIONS

Due to the change in the fiscal outlook for 2001-02, May Revision includes the following reductions:

- **Infrastructure Bank Program**—Transfer \$177 million of the Infrastructure Bank fund balance to the General Fund (reflected as revenues). This leaves sufficient funding for the Bank to continue making loans through 2001-02. The Bank can then replenish its resources to make loans to local entities for infrastructure projects to aid economic development by issuing bonds against its loan portfolio.
- **California Technology Investment Program**—Eliminate the proposed \$6.2 million augmentation. The program will continue at its base funding level of about \$6 million.

EXPENDITURES

EXPENDITURES

2001 - 2002

- **Defense Adjustment Matching Grants**—Reduce by \$2 million the \$3 million augmentation proposed in the Governor's Budget for matching grants to localities seeking federal funds for base reuse activities
- **Rural Development Council**—Eliminate the \$168,000 General Fund augmentation and related position for Council support. The Council—intended to help coordinate state, federal and local rural development activities in California—retains federal funding and a position for support.
- **Rural Investment Tax Exemption**—Eliminate the proposed \$110,000 for consultants to assist with program administration in 2001-02.

EXPENDITURES

EXPENDITURES

2001 - 2002

LOCAL GOVERNMENT

FINANCIAL ASSISTANCE TO LOCAL GOVERNMENTS

2000-01	NO CHANGE
2001-02	-\$300 MILLION

Due to the change in the fiscal outlook, the Administration proposes to delete the \$250 million in discretionary funding to local governments and to reduce the \$75 million for technology grants to local law enforcement to \$20 million. In addition, regional law enforcement training centers will receive \$5 million through the Office of Criminal Justice Planning pursuant to a competitive grant process.

The May Revision continues to provide significant program assistance for local governments in the areas of public safety, health and human services programs, transportation, resources, and Trial Court Funding.

EXPENDITURES

EXPENDITURES

2001 - 2002

JUDICIAL BRANCH

JUDICIARY

2000-01	NO CHANGE
2001-02	-\$0.8 MILLION

The May Revision contains the following augmentations for the Judiciary:

Trial Court Financial System—\$1.5 million to establish a statewide financial system in the Judicial Council for the trial courts. The trial courts currently use 58 different local accounting and financial systems. This proposal would fund an integrated fiscal system for all the trial courts, improving management and administration of Trial Court Funding.

Establishment of Regional Offices—\$1.5 million to establish two regional offices, one in Northern California and one in Southern California, to enable the Judicial Council to better assist the trial courts with management and coordination of local operations.

Improved Trial Court Facilities Support—\$1 million to create a trial court facilities unit within the Judicial Council for managing existing local court facilities and providing ongoing master planning for the trial courts. The proposed unit would provide ongoing facilities management assistance, update information first collected by the Task Force on Trial Court Facilities, and provide expert consultation and assistance to trial courts to meet their future facility needs.

Habeas Corpus Resource Center Facilities—\$178,000 is included to revise a proposal in the January 10 Governor's Budget for facility expansion of the Center. This funding would address revised rent costs for the Center.

BUDGET REDUCTION

Equal Access Fund—Due to the reduction in available General Fund resources for 2001-02, the May Revision proposes to eliminate the \$5 million in the January Governor's Budget (\$250,000 from support operations and \$4.8 million from local assistance) from the Equal Access Fund, thereby leaving \$10 million in base funding.

EXPENDITURES

2001 - 2002

TRIAL COURT FUNDING

2000-01	NO CHANGE
2001-02	\$8.9 MILLION

The May Revision contains the following Trial Courts Funding augmentations:

Pay Equity Adjustments—\$4 million as part of a three-year phase-in program to address trial court employee pay equity adjustments. These adjustments are a result of trial court unification in which both former municipal and former superior court employees perform relatively the same tasks but at different pay levels. As a result, this proposal, for a total of approximately \$12 million over three years, would provide parity to former municipal court employees affected.

Security Negotiated Salary Increases—\$4.9 million to address increased trial court costs for salary increases for law enforcement personnel that provide security for the trial courts.

EXPENDITURES

EXPENDITURES

2001 - 2002

GENERAL
GOVERNMENT

SECRETARY OF STATE

2000-01	No CHANGE
2001-02	\$0.9 MILLION

PROPOSITION 34

The May Revision includes \$874,000 to implement Proposition 34, approved by the voters on November 7, 2000, which imposed a series of campaign finance reporting and disclosure requirements.

OFFICE OF EMERGENCY SERVICES

2000-01	No CHANGE
2001-02	-\$5.6 MILLION

Due to fiscal constraints, the May Revision includes a \$5.6 million reduction in funds proposed for emergency-related equipment. However, the Budget still provides a total of \$5.7 million for new equipment, including \$1.0 million for water tender units, \$1.1 million for large diameter hoses, and \$3.6 million for urban heavy rescue vehicles, to support the mutual aid system throughout California.

DEPARTMENT OF CONSUMER AFFAIRS

2000-01	No CHANGE
2001-02	No CHANGE

The May Revision proposes a revenue transfer of \$50 million of the balance of the High Polluter Repair or Removal Account to the General Fund. The proposed fund transfer will have no impact on the Consumer Assistance Program as proposed in the January Governor's Budget.

EXPENDITURES

2001 - 2002

DEPARTMENT OF GENERAL SERVICES

2000-01 *NO CHANGE*
2001-02 *-\$0.6 MILLION*

CALIFORNIA HOME PAGE

The May Revision proposes \$7.3 million from the Service Revolving Fund for State agencies to contract with the Department of General Services to integrate individual department-specific web sites and applications with the Home Page portal as part of the ongoing upgrade of the California Home Page.

SAN QUENTIN PRISON STUDY

The May Revision includes \$250,000 to conduct an additional study on San Quentin Prison to develop options in the context of the findings of the current study which is due no later than June 30, 2001.

E-BUSINESS CENTER

The May Revision proposes a reduction of \$897,000 General Fund for the E-Business Center with a corresponding increase of \$897,000 Service Revolving Fund to reflect charges to client agencies for a portion of the costs of the E-Business Center related to licensing, E-Marketplace, E-Jobs, and online bidding.

DEPARTMENT OF FOOD AND AGRICULTURE

2000-01 *NO CHANGE*
2001-02 *\$1.4 MILLION*

FOREIGN ANIMAL DISEASE

The May Revision contains \$1.4 million for planning, media relations, outreach, and education for a foreign animal disease preparedness program.

EXPENDITURES

EXPENDITURES**2001 - 2002****CALIFORNIA ARTS COUNCIL**

2000-01 *No CHANGE*
 2001-02 *-\$14 MILLION*

CULTURAL INFRASTRUCTURE DEVELOPMENT FUND

Due to fiscal constraints, the May Revision includes a reduction of \$14 million for the Cultural Infrastructure Development Fund proposed in the January Governor's Budget. The Budget maintains \$6 million for this program to provide grants to museums, arts organizations, and special projects.

DEPARTMENT OF VETERANS AFFAIRS

2000-01 *No CHANGE*
 2001-02 *\$4.0 MILLION*

VETERANS HOME INFORMATION SYSTEM

The May Revision proposes \$2,232,000 General Fund to provide funding for business process re-engineering by contracted specialists to define the system needs of the homes and to ultimately ensure quality care for the homes' members.

YOUNTVILLE HOME

The May Revision proposes a reduction of 14.8 PYs from vacancies in a recently closed ward and redirection of the \$800,000 in reimbursements from these positions to pay for the services of a private sector collection company to ensure the timely collection of Medicare and Medi-Cal payments.

BARSTOW HOME

The May Revision proposes a \$2,886,000 increase in General Fund due to losses of \$3,373,000 in federal funds and reimbursements as a result of the de-certification of the Home's skilled nursing facility. The adjustment also reflects reductions in operating costs due to the reduced census in the Home.

EXPENDITURES

2001 - 2002

CHULA VISTA HOME

The May Revision proposes a General Fund reduction of \$1,112,000 and a reduction of \$3,776,000 in federal funds and reimbursements that resulted from the delay in opening of the Home's skilled nursing facility. The adjustment also reflects reductions in operating costs due to the reduced census in the Home.

OFFICE OF PLANNING AND RESEARCH

2000-01	NO CHANGE
2001-02	-\$40.8 MILLION

TOUCH SCREEN VOTING PILOT PROJECT

Due to the reduction in available General Fund resources for 2001-02, the May Revision proposes to withdraw \$40.0 million General Fund proposed in the January Budget for a touch screen voting pilot project in three California counties.

ASSISTANCE TO LOCAL AGENCY FORMATION COMMISSIONS

The May Revision proposes to delete \$750,000 General Fund to assist local agency formation commissions with preparing comprehensive service reviews and updating their spheres of influence.

DEPARTMENT OF INDUSTRIAL RELATIONS

2000-01	NO CHANGE
2001-02	-\$2.4 MILLION

Due to the reduction in available General Fund resources for 2001-02, the May Revision proposes a reduction of \$2.4 million General Fund from the augmentations in the January Governor's Budget for the Department of Industrial Relations, as follows:

Workers' Safety Training Grants—A reduction of \$1.5 million General Fund in the Workers' Safety Training Grants Program. With this reduction, the Budget includes \$1 million to implement this grant program to provide classroom and electronic training in employee safety and health.

Educational Component to Increase Labor Law Compliance—A reduction of \$850,000 General Fund in the educational program designed for employers to increase labor law compliance. The Budget retains \$886,000 for this effort.

EXPENDITURES

EXPENDITURES**2001 - 2002****UTILITIES COSTS**

2000-01	\$11.9 MILLION
2001-02	\$39.2 MILLION

UTILITIES COSTS

The May Revision proposes a \$39.2 million General Fund increase to address higher utilities costs for State agencies. This amount augments funding already included in the Budget (\$25 million) and is proposed for allocation to State agencies to purchase natural gas from the Department of General Services and other natural gas suppliers, and for increases in electricity costs.

In addition, to address current-year increases in utilities costs, \$11.9 million General Fund is included to augment funding already contained in the Budget (\$25 million), for this purpose.

BOARD OF EQUALIZATION

2000-01	NO CHANGE
2001-02	-\$3.6 MILLION

The May Revision proposes reductions totaling \$3.6 million to remove funding for support budget adjustments and to delay the replacement of obsolete hardware and software.

FRANCHISE TAX BOARD

2000-01	NO CHANGE
2001-02	\$5.760 MILLION

California Child Support Automation System—The May Revision proposes 11 positions for this program to establish a Transition Management Team to work with counties on the development of the new statewide child support collection system. These positions would be funded with \$831,000 in carryover funds from the current year.

Child Support Replacement System—Because the Child Arrearage Management Project (CAMP) is no longer practicable, the existing child support collection system is proposed to be moved to a new computer platform to provide the additional capacity required until the statewide child support collection system is

EXPENDITURES

2001 - 2002

implemented. The May Revision proposes \$2.361 million and six positions to upgrade the system and add manual collection capabilities for the program. The Administration is also proposing a statutory change to reflect this change in approach.

Due to the change in the fiscal outlook for 2001-02, the following General Fund reductions are proposed for the Franchise Tax Board's budget:

- Reduce funding for audit travel and printing by \$1.245 million.
- Defer the second year of the network backbone upgrade for a \$1.101 million savings.
- Reduce call center funding by \$633,000. The Franchise Tax Board currently answers approximately 80 percent of taxpayers calls within two minutes.

In addition, the May Revision proposes adding 123 positions at a cost of \$7.6 million to improve collection efforts for delinquent taxes, generating additional revenues of \$53.8 million in 2001-02 and \$97.5 million in 2002-03.

STATE RETIREMENT CONTRIBUTIONS

2000-01	NO CHANGE
2001-02	\$195.2 MILLION

California Public Employees' Retirement System (CalPERS)—As a result of the retirement benefit enhancements implemented by Chapter 555, Statutes of 1999 (SB 400), changes in the assumptions used by CalPERS in its June 30, 2000, actuarial evaluation of the retirement system, and other economic factors, the State's 2001-02 obligation to CalPERS is estimated to increase by \$195.2 million General Fund (\$455.5 million total funds) from the Governor's Budget. As the General Fund payment to CalPERS is made on a quarterly basis, one quarter in arrears, the total General Fund payment for 2001-02 will be \$273.6 million.

EXPENDITURES

EXPENDITURES

2001 - 2002

HEALTH & DENTAL BENEFITS FOR ANNUITANTS

2000-01	\$0.9 MILLION
2001-02	\$32.4 MILLION

The May Revision includes an increase of \$32.4 million General Fund (from \$430.7 million to \$463.1 million) for annuitant health and dental benefits in 2001-02 due primarily to health premium increases. In addition, an increase of approximately \$0.9 million General Fund in the current year is reflected due to higher-than-anticipated health benefit expenditures.

STATEWIDE ISSUES**ACROSS-THE-BOARD
GENERAL FUND REDUCTIONS TO STATE DEPARTMENTS****STATEWIDE***2000-01 NO CHANGE**2001-02 -\$50.0 MILLION*

Since the release of the Governor's Budget, estimated available General Fund resources in the budget year have been reduced significantly. The May Revision proposes a statewide, unallocated General Fund reduction in non-Proposition 98 state operations appropriations in the budget year. The proposed reduction would be approximately 2.5 percent of support appropriations and will total \$50.0 million. The state operations appropriations for the following are exempt from any reduction:

- 24-Hour Care Departments
- Public Safety Departments
- Higher Education and Special Schools
- Revenue Producing Departments

The Administration invites the Legislature, Judiciary, and Constitutional Officers to participate in this reduction.

EMERGENCY POWER PURCHASES

On January 17, 2001, the Governor issued an emergency proclamation due to the financial insolvency of two of the State's investor-owned utilities and rolling black-outs. Subsequently, legislation was passed to authorize advances from the General Fund for the Department of Water Resources to purchase power.

To date, a total of \$6.7 billion General Fund advances have been authorized. These General Fund advances will be fully reimbursed from the proceeds from the sale of energy revenue bonds authorized by Chapter 9, Statutes of 2001 (1st Extraordinary Session [SB 31X]). Therefore, the use of General Fund money is treated as a loan to the Electric Power Fund, where the expenditures for the power purchases are

EXPENDITURES**2001 - 2002**

captured. The General Fund will be repaid as soon as the revenue bonds are issued, which is expected to occur mid to late August.

MANDATE APPROPRIATIONS FOR LOCAL GOVERNMENTS

2000-01	NO CHANGE
2001-02	\$50 MILLION

The State Controller's Office advises that the claims they received from local governments (cities, counties, special districts) for reimbursement of state-mandated local costs exceeded Budget Act appropriations and the \$39 million set-aside in the January Governor's Budget for this purpose. In addition, since January, the Commission on State Mandates has determined that the Peace Officer Bill of Rights qualifies for reimbursement as a state mandate and has estimated the cost to be approximately \$152.5 million, of which \$50 million is included in the May Revision and the remaining \$102.5 will be funded in future years. The 2001 mandates claims bill will appropriate funding for the deficiency as well as the new mandate.

PAYMENT OF INTEREST ON GENERAL FUND LOANS

2000-01	NO CHANGE
2001-02	\$95.0 MILLION

CURRENT YEAR

The Governor's Budget did not anticipate the need for internal or external borrowing costs. The May Revision still anticipates no need for borrowing in 2000-01.

BUDGET YEAR

In the Governor's Budget, the 2001-02 interest cost on internal borrowing was anticipated to be \$5.0 million General Fund. While the level of internal borrowing is unknown at this time, a conservative estimate of \$100.0 million is included in the May Revision to reflect the expected lower level of General Fund revenues.

The May Revision estimates are preliminary because the cash flow projection process cannot be completed in time for the May 14 statutory deadline. An updated cash flow and related interest cost will be available soon after the formal release of the May Revision. The preliminary estimate assumes the May Revision revised expenditures will be disbursed based on the cash flow pattern projected in the Governor's Budget. In addition, the May Revision assumes that revenue bonds

EXPENDITURES

2001 - 2002

will be issued in August 2001 and proceeds from that bond sale will be used to fully repay the General Fund for energy purchases between January and August 2001.

We note that the need for internal and/or external borrowing will ultimately be based on the cash flow projection for the Budget Act, rather than the May Revision or the Governor's Budget.

GENERAL OBLIGATION BONDS & COMMERCIAL PAPER DEBT SERVICE

2000-01	<i>-\$35.8 MILLION</i>
2001-02	<i>\$26.2 MILLION</i>

CURRENT YEAR

The Governor's Budget anticipated current year General Obligation (GO) bond debt service expenditures of approximately \$2.286 billion. Due to savings from refunding sales, accrued interest, and premiums from bond sales that occurred in October and December of 2000 and February 2001, there will be savings of \$35.8 million in the current year.

BUDGET YEAR

The Governor's Budget anticipated budget year GO bond debt service expenditures of approximately \$2.583 billion. There will be a net increase of \$26.2 million in the budget year resulting from higher projected debt service (due to the larger than anticipated June 2001 GO bond sale) and lower Commercial Paper interest expense.

The net General Fund decrease will be \$9.6 million over the two fiscal years.

EXPENDITURES

EXPENDITURES

2001 - 2002

2001-02 STATE APPROPRIATIONS LIMIT CALCULATION

Pursuant to Article XIII B of the California Constitution, the 2001-02 State Appropriations Limit (SAL) is estimated to be \$59.318 billion. The revised limit is the result of applying the growth factor of 9.70 percent. The revised 2001-02 limit is \$357 million above the \$58.961 billion estimated in January. This increase is due to changes in the following factors:

	January Percentage	May Revision Percentage
Per Capita Personal Income	6.98	7.82
State Civilian Population	2.26	1.81
K-14 Average Daily Attendance	1.37	1.64

The SAL for 2000-01 does not change since it was statutorily established by Section 12.00 of the 2000 Budget Act.

EXPENDITURES

SUMMARY CHARTS

2001 - 2002

SUMMARY CHARTS

2001-02 May Revision General Fund Budget Summary (Dollars in Millions)

	<u>2000-01</u>	<u>2001-02</u>
Prior Year Balance	\$8,848	\$6,645
Revenues and Transfers	<u>\$78,043</u>	<u>\$74,842</u>
Total Resources Available	\$86,891	\$81,487
Expenditures	<u>\$80,246</u>	<u>\$79,676</u>
Fund Balance	\$6,645	\$1,811
Budget Reserves and Set-Asides:		
Reserve for Liquidation of Encumbrances	\$701	\$701
Set-aside for Legal Contingencies	\$7	\$100
Special Fund for Economic Uncertainties	\$5,937	\$1,010

SUMMARY CHARTS

SUMMARY CHARTS

2001 - 2002

2001-02 Revenue Sources (Dollars in Millions)

	General Fund	Special Fund
Personal Income Tax	\$42,144	--
Sales Tax	21,985	\$2,627
Bank and Corporation Tax	5,873	--
Highway Users Taxes	--	3,178
Motor Vehicle Fees	14	3,754
Insurance Tax	1,452	--
Estate Taxes	1,022	--
Liquor Tax	291	--
Tobacco Taxes	125	1,014
Other	1,936	4,609
Total	\$74,842	\$15,182

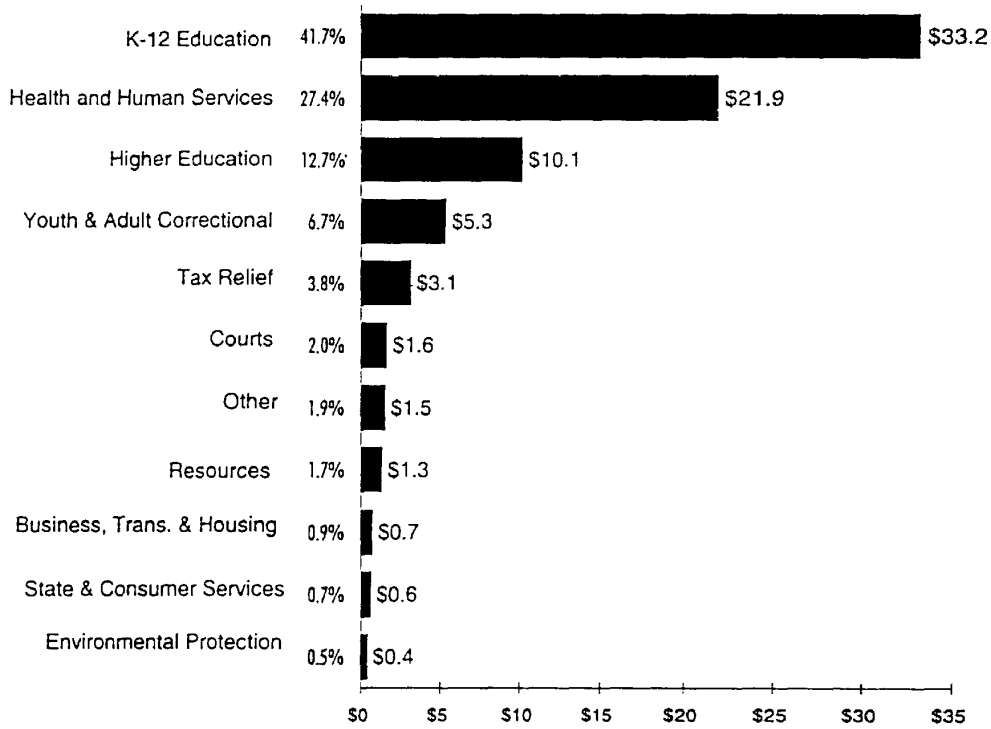
2001-02 General Fund Expenditures by Agency (Dollars in Millions)

	2000-01	2001-02
Legislative, Judicial, Executive	\$2,670	\$2,630
State and Consumer Services	578	593
Business, Transportation & Housing	2,579	746
Technology, Trade and Commerce	149	93
Resources	2,459	1,324
Environmental Protection	492	432
Health and Human Services	20,127	21,852
Youth and Adult Correctional	5,199	5,300
K-12 Education	29,976	33,216
Higher Education	9,357	10,088
General Government	6,660	3,402
Total	\$80,246	\$79,676

SUMMARY CHARTS

2001 - 2002

2001-02 General Fund Expenditures (Dollars in Billions)



SUMMARY CHARTS

2001 - 2002

EXECUTIVE OFFICE

B. TIMOTHY GAGE
DIRECTOR OF FINANCE
445-4141

BETTY T. YEE
CHIEF DEPUTY DIRECTOR
445-9862

ANNETTE PORINI
CHIEF DEPUTY DIRECTOR
445-8582

DENNIS HORDYK
ASSISTANT DIRECTOR FOR
BUDGETS AND OPERATIONS
445-4923

ROBERT MIYASHIRO
DEPUTY DIRECTOR FOR
LEGISLATION
445-8610

SANDY HARRISON
ASSISTANT DIRECTOR
323-0648

FLOYD SHIMOMURA
CHIEF COUNSEL
324-4856

BUDGET PROGRAM AREAS

Revenue Forecasting, Economic
Projections, Demographic Research,
Local Government, Business,
Transportation and Housing, and
Trade and Commerce Shelley Mateo 322-2263

Education Kathryn Gaither 445-0328

Health and Human Services Stan Cubanski 445-6423

Youth and Adult Correctional, Justice,
Judiciary, General Government and
State and Consumer Services Calvin Smith 445-8913

Resources, Environment, Energy,
Capital Outlay and Legislation Fred Klass 324-0043

Employee Relations,
Retirement Systems Carl Rogers 445-3274

Budget Planning and Preparation,
Cash Management, Statewide Issues Yoshie Fujiwara 445-5332

California's Budget on the Internet
This document is also available on the Internet at the California Department of Finance
website—<http://www.dof.ca.gov>